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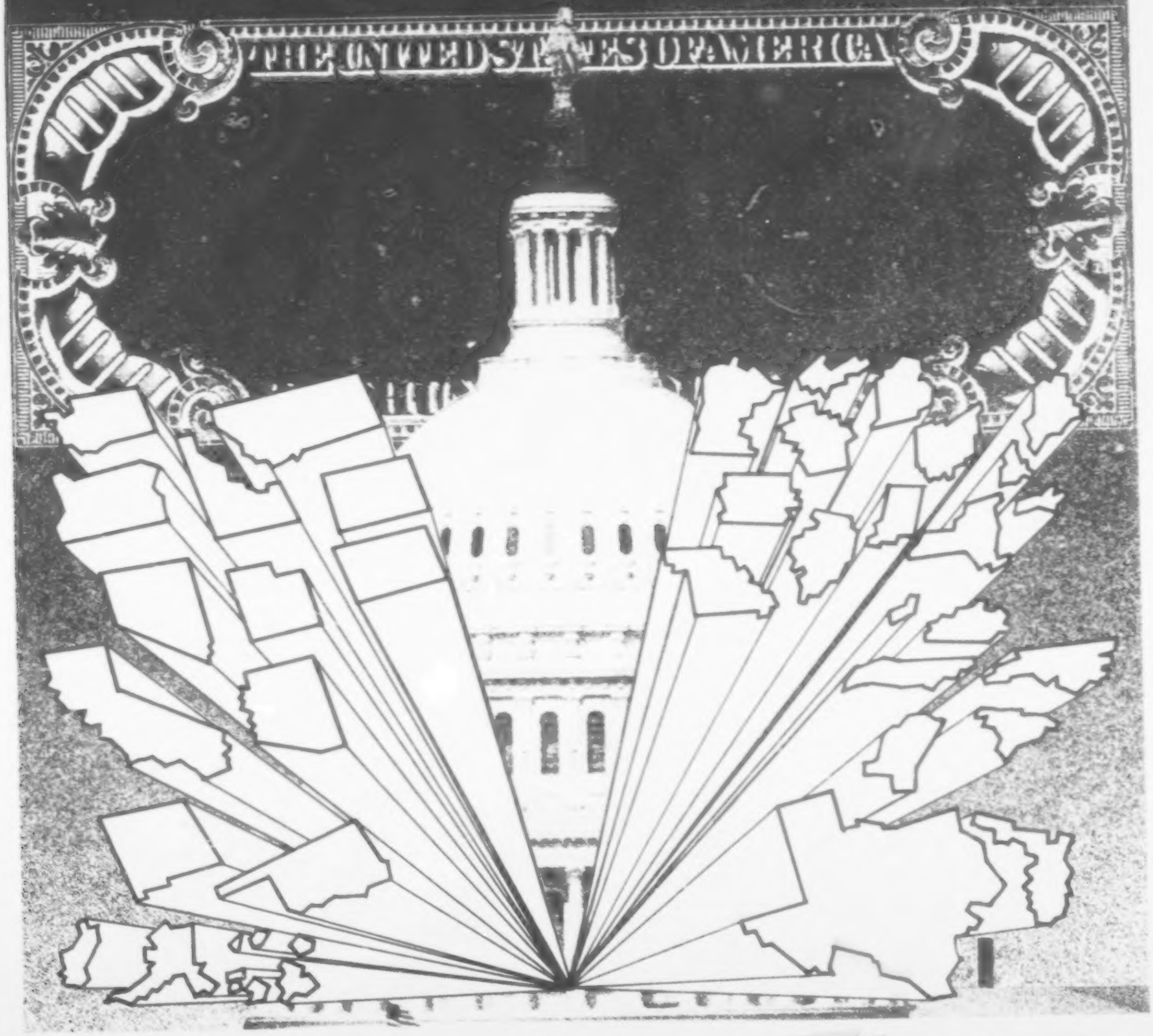
Fiscal Federalism and the Partnership Act of 1987


THE UNITED STATES OF AMERICA

A SPECIAL STUDY

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FISCAL FEDERALISM AND THE PARTNERSHIP ACT OF 1987

The Congress of the United States
Congressional Budget Office

PREFACE

As required in the Family Support Act of 1988, this study examines the effects on federal and state government budgets of mandating a nationwide minimum benefit standard in the Aid to Families with Dependent Children (AFDC) program, raising the federal matching rates in AFDC and Medicaid, and repealing 14 federal grant programs. These changes were proposed by The Partnership Act of 1987, introduced in the 100th Congress as S. 862, but never enacted. In accordance with the Congressional Budget Office's (CBO's) mandate to provide objective and impartial analysis, this report contains no recommendations.

The study was prepared primarily by Janice Peskin of CBO's Budget Analysis (BAD) Division, under the direction of James Blum, C.G. Nuckols, Charles Seagrave, and Robert Sunshine. Theresa Gullo and Marjorie Miller of BAD were responsible for the analyses dealing with the repeal of federal grant programs. Don Muse of BAD completed the estimates for the Medicaid changes. Other CBO analysts who made important contributions include Laura Carter, Alice Grant, Ralph Smith, and Frances Sussman.

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November 1989

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SUMMARY

The Partnership Act of 1987, introduced in the 100th Congress as S. 862 but never enacted, significantly changes existing fiscal relationships between the federal government and states and localities. It expands the federal role in financing two entitlement programs for low-income families: Aid to Families with Dependent Children (AFDC) and Medicaid. To pay for these expansions, it repeals a number of federal programs that provide grants to states and localities. These changes would have major impacts on total federal government and state government budgets, and on the distribution of budgetary costs and savings among states and regions. As required in the Family Support Act of 1988, the Congressional Budget Office (CBO) has studied the budgetary effects of these major provisions of S. 862.

THE BILL'S PROVISIONS AND CBO'S ANALYSIS

S. 862 ultimately mandates a nationwide minimum benefit standard in AFDC that, along with Food Stamp benefits, equals 90 percent of the official federal poverty guidelines, and raises to 90 percent the federal matching rate on AFDC payments up to the minimum benefit standard. It also raises the federal matching rate in Medicaid to 90 percent. Currently, the benefit standards of states for a family of three for AFDC together with Food Stamp benefits range from 42 percent to 87 percent of the poverty guidelines in the continental United States. Federal matching rates in AFDC and Medicaid, which are identical and rise as a state's per capita income falls, range from 50 percent to 80 percent.

To offset the federal costs of the AFDC and Medicaid expansions, S. 862 repeals 14 federal grant programs. The grant programs are repealed immediately, while the bill's changes in AFDC and Medicaid are phased in slowly over time and would not be fully effective until about the year 2010.

To estimate the proposal's effects each year over a 20-year period is neither manageable nor useful, given the uncertainty of estimates so far into the future. Thus, CBO analyzed the budgetary effects of four phases of the bill's three major changes, including the final phase of full implementation, as if each phase were completely effective in 1989 or in 1994. Having estimates for the four phases, rather than for just the final phase of the proposal, provides information necessary to assess how and where to change the proposal to meet the goal of budget neutrality, as set forth in the study mandate.

Estimates are shown for both 1989 and 1994. The year 1994 is the last one for which CBO has "baseline" estimates of federal spending under current law from which the bill's changes are estimated. As with all CBO estimates of legislative effects, costs or savings represent incremental changes from spending levels under current law. Having estimates for 1989 provides a better idea of the budgetary effects of the earliest phases of the proposal. They are also subject to less uncertainty, particularly concerning the distribution of the budgetary effects by state. Estimates for individual states were, in fact, completed only for 1989.

EFFECTS OF THE PROPOSAL WHEN FULLY PHASED IN

In the early stages of phasing in the AFDC and Medicaid changes, repeal of the grant programs would outweigh the budgetary effects of the other changes. Consequently, the federal government would experience savings, while state governments would experience costs. After the changes are fully phased in, however, the situation would be reversed, with the following budgetary implications:

- The combined changes would not be budget neutral for the federal government or state governments. Assuming no induced changes in state spending (discussed below), costs to the federal government of full implementation in 1989 would total an estimated $22.0 billion and savings to states, $9.9 billion (see Summary Table). The federal costs and state savings would not be totally offsetting because mandating the minimum benefit standard in AFDC would raise total costs.

- If fully carried out in 1994, the combined changes would move even further from budget neutrality. Federal costs would total $38.2 billion and state savings, $22.4 billion, assuming no induced changes in state spending. This growing imbalance between the 1989 and 1994 estimates reflects a higher projected growth in AFDC and Medicaid spending under current law than in the grant programs that would be repealed. Because these trends would probably continue beyond 1994, the effects of the bill on federal and state budgets would be increasingly less neutral over time.

SUMMARY TABLE. ESTIMATED BUDGETARY EFFECTS OF THE CHANGES IN AFDC, MEDICAID, AND GRANT PROGRAMS WHEN FULLY PHASED IN
(In billions of dollars)

	1989	1994
	Federal Costs or Savings	
AFDC Changes[a]	16.1	20.2
Medicaid Change	19.0	31.6
Grant Repeals	-13.3	-14.0
Total[b]	22.0	38.2
	State Costs or Savings	
AFDC Changes[a]	-3.8	-4.3
Medicaid Change	-19.0	-31.6
Grant Repeals	13.1	13.8
Total[b]	-9.9	-22.4
	Net Budgetary Effects	
AFDC Changes[a]	12.2	15.9
Medicaid Change	0	0
Grant Repeals	-0.2	-0.2
Total[b]	12.1	15.7

SOURCE: Congressional Budget Office estimates.

NOTE: Savings are shown as negative numbers.

a. Costs include those in the AFDC, Medicaid, and Food Stamp programs.

b. These combined budgetary effects differ from the sum of the three individual changes in AFDC, Medicaid, and grant programs. The costs of mandating an AFDC minimum benefit standard include higher Medicaid costs, estimated using current-law federal matching rates in Medicaid. For the combined estimates, however, these Medicaid costs were estimated using the proposed (higher) federal matching rates in Medicaid.

- The bill's changes would affect states differently. When the changes are fully phased in, 30 states and the District of Columbia would save a total of $11.5 billion in 1989. The remaining 20 states and territories would lose a total of $1.6 billion. Two states--New York and California--would account for almost two-thirds of net state savings; together with Massachusetts and Michigan, they would account for 80 percent of net state savings. Savings are associated with population size to some degree, but these four states account for only 25 percent of the U.S. population, a much smaller share than their share of net savings.

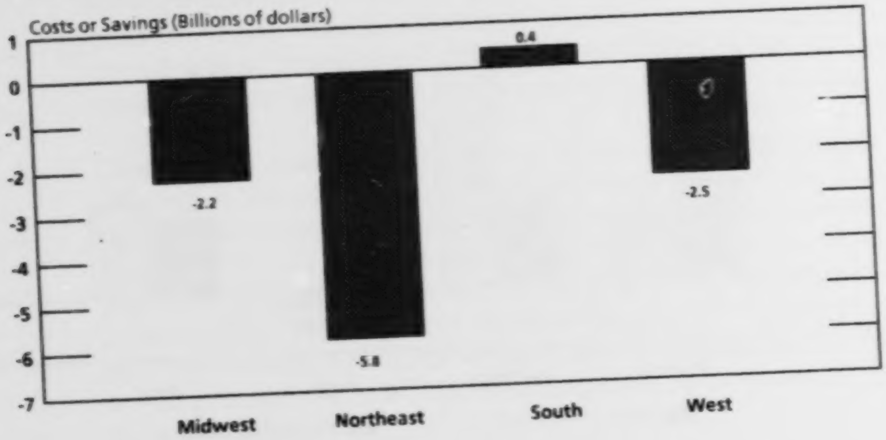
- Totaling state effects by region shows a similar uneven impact. When the changes are fully phased in, only state governments in the South would experience costs (see Summary Figure 1). The region's costs would be $0.4 billion in 1989, although these costs might well be reversed later because of the increase in total state savings over time. The other three Census regions would save money, although not equally so. Of total net savings to state governments, the Midwest would garner 22 percent; the Northeast, 57 percent; and the West, 24 percent. These regional shares of savings can diverge significantly from each region's share of the U.S. population (see Summary Figure 2).

- The areas that would save the most from these changes have relatively high per capita incomes; many of those that would have costs or save little are among the poorest. For example, the Northeast had the highest per capita personal income in 1988 ($19,214) and the South had the lowest ($14,793). Moreover, it is the poorest areas where fiscal capacity, or the ability to replace lost federal funds with funds from other sources, is weak. The AFDC and Medicaid changes would favor the areas that were better-off, as explained below.

The overall impact of this proposal is extremely difficult to predict, since it would provide large incentives for states to make their Medicaid program, and possibly their AFDC program, more generous. Given the proposal's 90 percent federal matching rate in Medicaid, states would have to pay for only 10 cents of every $1 increase in benefits. In AFDC, some expansion of benefits--although not increases in benefit levels above the minimum benefit standard--could also be financed at a 90 percent federal matching rate. At the same time, many states would reap sizable savings from the bill's changes, providing them with the funds for expanding benefits.

If states responded to these incentives and spent more than the bill required, the federal government would bear most of the additional costs. For example, if states spent an additional $1 billion on Medicaid, federal costs would increase by $9 billion at the 90 percent federal matching rate. An additional $5 billion in state spending would increase federal costs by $45 billion, tripling federal costs of the proposal in 1989. For states to spend these additional amounts appears reasonable, given estimated total state savings of $9.9 billion in 1989 and $22.4 billion in 1994 and the strong incentive provided by the 90 percent federal matching rate. Nonetheless, an increase of $50 billion in Medicaid spending would represent almost a 50 percent increase in the program level in 1994.

Summary Figure 1.
Estimated Effects on State Budgets of the Changes in AFDC, Medicaid, and Grant Programs When Fully Phased In



SOURCE: Congressional Budget Office estimates.

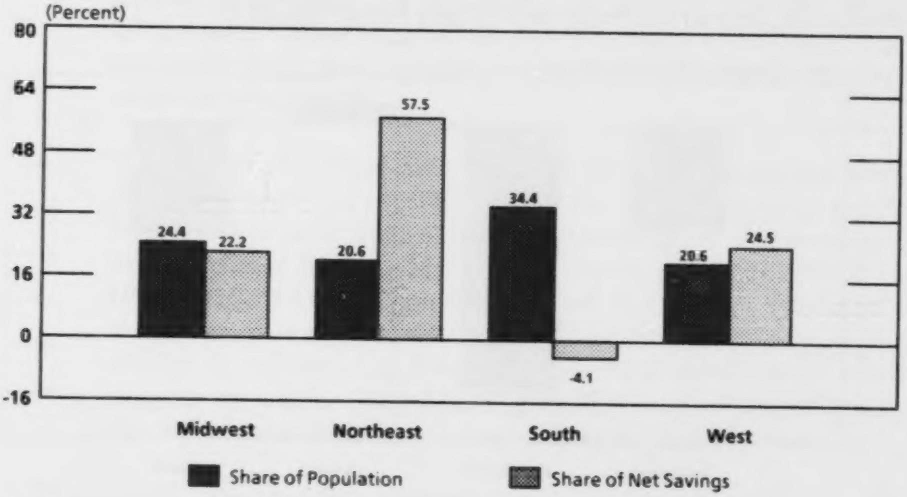
NOTE: Savings are shown as negative numbers.

Because CBO cannot forecast how states would react to these changes with any accuracy, the detailed estimates do not take such possible changes into account. Thus, when assessing the budgetary implications of the bill as presented in the tables and text, the reader should keep in mind that federal costs would probably be much higher. In contrast, state costs would be lower if states chose not to replace full federal spending on the grant programs that would be repealed.

AFDC CHANGES

Under current law, benefit levels in AFDC are set by states and localities and vary widely across the country. The bill requires a minimum benefit standard that takes into account the Food Stamp benefits that would be received by a family with income equal to the AFDC minimum benefit standard (less the Food Stamp standard

Summary Figure 2.
Regional Shares of Net Savings and Population



SOURCE: Congressional Budget Office estimates and Bureau of the Census data.

NOTE: A negative percentage represents a cost to the region.

deduction). Thus, the minimum benefit standard, when combined with these Food Stamp benefits, would equal increasing percentages of the poverty guidelines over a period of time. The percentage begins at 50 percent of poverty and rises by two percentage points each year until it reaches a maximum of 90 percent. To provide fiscal relief to states and localities, the bill also raises the federal matching rate on amounts expended up to the minimum benefit standard to 85 percent for a few years and then to 90 percent. CBO analyzed the effects of an AFDC minimum benefit standard at four different percentages of the poverty guidelines: 50 percent, 65 percent, 75 percent, and 90 percent. The estimates also assumed a federal matching rate of 90 percent. The major findings are:

- Net costs (that is, federal costs less state savings) of mandating a minimum benefit standard in AFDC in 1989 are estimated to be $0.2 billion at 50 percent of the poverty guidelines, $2.6 billion at 65 percent, $5.5 billion at 75 percent, and $12.2 billion at 90 percent. At 90 percent of poverty, AFDC benefit payments would be increased by about 90 percent above levels under current law. These costs include not only those in AFDC but Medicaid costs and Food Stamp savings that result from the higher minimum benefit standards in AFDC. These additional benefits would be concentrated where benefits are currently the lowest, often in the states with the lowest per capita incomes.

- Costs would rise over time at any given percentage of poverty, since the poverty guidelines, which depend on the Consumer Price Index, are projected to rise more rapidly than the benefit levels in AFDC under current law. With the minimum benefit standard at 90 percent of poverty, for example, costs in 1994 ($15.9 billion) would be 30 percent higher than in 1989. Costs are understated because some recipients would probably reduce their working time in response to the higher benefits.

- Virtually all of the families currently receiving AFDC--about 3.5 million--would have their benefits increased by sizable amounts. When the benefit standard is at 90 percent of the poverty guidelines, AFDC benefits in 1989 would rise by an average of $289 a month ($3,468 a year), an increase of three-quarters from levels under current law. Any increase in benefit levels would also bring new families onto AFDC. CBO estimates that new families on AFDC would number 705,000 at 90 percent of the poverty guidelines, an increase of about one-fifth that would bring the total number of families on AFDC to 4.5 million.

- Without any change in the federal matching rate, both the federal government and state governments would share the costs of the minimum benefit proposal. Because the bill would raise the federal matching rate, however, states overall would actually save money from the bill's AFDC changes. With the minimum benefit standard at 90 percent of the poverty guidelines, states would save an estimated $3.8 billion in 1989; the federal government would experience added costs of $16.1 billion, a 214 percent increase in federal AFDC benefit payments.

- States would also be affected in different ways by the AFDC changes. With the minimum benefit standard at 50 percent of the poverty guidelines, 10 states would have to raise their benefit levels; at 90 percent, all states would have to raise their benefit levels. After including the effects of raising the federal matching rate, most states would save money with the minimum benefit standard at 90 percent of poverty. The AFDC changes would raise costs in 16 states, however, many of them in the South.

- Costs to governments in the South would increase by $0.3 billion with the minimum benefit standard at 90 percent of the poverty guidelines. The South has the lowest AFDC benefit standards under current law and would thus have higher costs than other regions from mandating the minimum benefit standard. Moreover, the region currently has the highest federal matching rates and would thus benefit less per dollar spent on AFDC from the increase in the federal matching rate. Although the South's budgetary costs would increase, it would receive $5.9 billion in new federal funds as a result of the AFDC changes, more than any other region would receive. Government budgets in other regions would experience savings: the Midwest, $0.9 billion; the Northeast, $1.5 billion; and the West, $1.7 billion.

CHANGE IN MEDICAID

The bill increases each state's federal matching rate in Medicaid by two percentage points a year until it reaches 90 percent in every state. CBO analyzed the budgetary effects of four different increases in matching rates: 2 percentage points, 10 percentage points, 20 percentage points, and 40 percentage points. With an increase of 40 percentage points, all states would have a federal matching rate of 90 percent. The analysis shows that:

- Federal costs (and state savings) in 1989 are estimated to be $1.1 billion, $5.6 billion, $11.0 billion, and $19.0 billion with increases in the federal matching rate of 2 percentage points through 40 percentage points, respectively, assuming no induced changes take place in state spending. Costs to the federal government of the 90 percent matching rate (the 40 percentage-point increase) would rise by two-thirds from 1989 to 1994, reaching an estimated $31.6 billion. This increase in costs over a five-year period reflects projections of continued rapid growth in Medicaid spending under current law.

- A small number of states would reap most of the savings from the increased federal matching rate. For example, with the matching rate at 90 percent, New York would save an estimated $4.4 billion in 1989, and California would save an estimated $2.4 billion. These two states would account for more than one-third of all state savings. Their savings would be large because they have large populations, high Medicaid expenditures, and current federal matching rates at the minimum 50 percent. The 11 states that spend the most on Medicaid benefits would account for almost three-quarters of all savings.

EFFECTS OF REPEALING THE GRANT PROGRAMS

S. 862 repeals 14 programs that currently provide grants to states and localities. The programs to be repealed provide funds for mass transportation, social and community services, community development, education, and environmental protection. CBO's findings on the amount and distribution of the funds are as follows:

- Repeal of the programs would save the federal government $13.3 billion, while states and localities would lose $13.1 billion in 1989. (The difference is the result of federal savings on administrative costs.) By 1994, the estimates are $14.0 billion and $13.8 billion, respectively. Six programs would account for 90 percent of the total: Urban Mass Transit formula grants, community development block grants, social services block grants, Environmental Protection Agency (EPA) construction grants, vocational education grants, and education impact aid.

- Among states, New York and California would lose the most in 1989--$1.4 billion and $1.3 billion, respectively--accounting for one-fifth of total state losses. They, along with five other states--Florida, Illinois, Ohio, Pennsylvania, and Texas--would account for 46 percent of total losses. This pattern is not surprising since these states account for 40 percent of the nation's population and the repealed programs distribute funds largely on the basis of population.

CHAPTER I

INTRODUCTION

Proposals to alter fiscal relationships between the federal government and states and localities are made with some regularity, often under the rubric of "fiscal federalism"--a concept that concerns the roles and relationships of the various levels of government in a federal system. In the 1980s, many of these proposals have taken the form of a restructuring of roles, based on a reallocation of responsibilities between the federal government and states and localities. The Partnership Act of 1987, introduced in the 100th Congress as S. 862, is just such a proposal. Among its changes, the bill expands the federal role in financing the Aid to Families with Dependent Children (AFDC) and Medicaid programs, and pays for a portion of these expansions by terminating a number of federal programs that provide grants to states and localities. No final committee action was ever taken on the bill, or on its predecessor, the Federalism Act of 1986.

The Family Support Act of 1988 required a study of the bill's three major provisions. The study was to focus on the fiscal impact of expansions in AFDC and Medicaid as well as the repeal of federal programs to pay for these expansions. This CBO special study was undertaken to fulfill that requirement. This chapter discusses the major provisions of S. 862, provides brief descriptions of the affected programs, and outlines the approach taken in this study. The next section discusses the impacts of the bill's provisions--separately and then in combination--on the federal government and on all state governments taken together. The final section presents the specific impacts of the changes on each state and on the various regions of the country.

MAJOR PROVISIONS OF THE PARTNERSHIP ACT

S. 862 requires a nationwide minimum benefit standard to be set for the AFDC program. Under current law, benefit levels are set by states and localities and vary widely across the country. The minimum

AFDC benefit standard, plus the Food Stamp benefits a family with that AFDC income would receive, must equal a specified percentage of the poverty guidelines. Once the bill is enacted, the AFDC benefit standard plus the Food Stamp benefits must equal 50 percent of the poverty guidelines published by the Department of Health and Human Services (HHS). Thereafter, the AFDC standard plus Food Stamp benefits must equal increasing percentages of the poverty guidelines--specifically, each year the required percentage increases by two points until it reaches a maximum of 90 percent of the poverty guidelines. For example, for a family of three in 1989, 50 percent of the poverty guidelines equals $419 a month. The AFDC minimum benefit standard would then equal $216; the Food Stamp benefit for a family with an income of $216 (and the Food Stamp standard deduction) would be $203; together they would add up to the $419.

To provide fiscal relief to states and localities, the bill also increases the federal matching rates in AFDC to 85 percent immediately, and then to 90 percent beginning in fiscal year 1992, on amounts expended up to the minimum benefit standard. Amounts expended to provide benefits above the minimum standard continue to be matched at existing federal matching rates, which in 1990 will range from 50 percent to 80 percent.

A second major change provided for in the bill increases the federal matching rates in the Medicaid program beginning in fiscal year 1990, by two percentage points a year in each state up to a maximum of 90 percent. Thus, a state with a 50 percent matching rate would move to 52 percent, and a state with a 75 percent matching rate would move to 77 percent right away. Each state's federal matching rate would continue to increase until it reached the maximum 90 percent. Currently, the Medicaid and AFDC matching rates are identical for all states.

Finally, S. 862 eliminates a broad range of federal programs that provide grants to states and localities. Eliminating these programs is intended to offset the impact on the federal budget of the AFDC and Medicaid changes, and move the bill toward budget neutrality for the federal government.

PROGRAMS AFFECTED

The two programs for which federal spending would increase under S. 862--AFDC and Medicaid--provide assistance to low-income families. Both of them are entitlement programs--that is, they are programs that make payments to families or individuals who meet specific criteria set in law. The terminated programs provide grants to states and localities for a variety of uses, ranging from the provision of services to individuals to aid in building and maintaining the nation's infrastructure.

AFDC

The AFDC program provides cash payments for needy children (and their mothers or other caretaker relatives) who have been deprived of support because of a parent's absence, death, incapacity, or unemployment. Within this broad guideline, states determine eligibility for the program but are subject to specific federal limitations. A family's income and assets must be below levels specified in law or set by the states and localities. Both states and the federal government share in the financing of the program.

S. 862 raises AFDC benefit levels. Currently set by the states, maximum benefit levels each month for a three-member family in the continental United States varied from $118 in Alabama to $663 in California in January 1989. Few states have increased benefit levels to keep up with inflation over the past two decades so that AFDC benefit levels have declined in real terms. State benefit standards, along with Food Stamp benefits, as a percentage of the poverty guidelines also varied sharply from state to state, ranging from 42 percent in Alabama and Mississippi to 87 percent in California for a three-member family living in the continental United States in 1989 (see Table 1).

The minimum benefit standard would replace a state's maximum benefit level if that current maximum level was below the required minimum standard. Both amounts represent the maximum AFDC benefits a family (with no income) would receive. Most cash income received by a family reduces the benefits that family actually receives. S. 862 also raises the federal matching rates in AFDC. Current federal matching rates rise as a state's per capita income falls.

Overall, the AFDC program has grown moderately during the past decade. Federal outlays have risen from $6.9 billion in fiscal year 1980 to an estimated $10.9 billion in 1989. Growth in average benefit levels and administrative costs has accounted for much of this change. The number of families receiving AFDC has changed little: from 3.6 mil-

TABLE 1. TWO ASPECTS OF THE AFDC PROGRAM (In percent)

State	AFDC Plus Food Stamp Benefits as a Percentage of Poverty Guidelines for a Family of Three, 1989[a]	Federal Share of AFDC Benefit Payments in 1990
Alabama	42	73.21
Alaska	88	50.00
Arizona	56	60.99
Arkansas	49	74.58
California	87	50.00
Colorado	62	52.11
Connecticut	77	50.00
Delaware	60	50.00
District of Columbia	65	50.00
Florida	56	54.70
Georgia	55	62.09
Hawaii	82	54.50
Idaho	57	73.32
Illinois	61	50.00
Indiana	56	63.76
Iowa	65	62.52
Kansas	65	56.07
Kentucky	50	72.95
Louisiana	48	73.12
Maine	69	65.20
Maryland	63	50.00
Massachusetts	80	50.00
Michigan	70	54.54
Minnesota	76	52.74
Mississippi	42	80.18
Missouri	56	59.18
Montana	62	71.35
Nebraska	62	61.12
Nevada	60	50.00

(Continued)

lion in 1980 to an estimated 3.7 million in 1989. By 1994, CBO estimates that federal outlays will rise to $13.1 billion under current law, reflecting in part new spending mandated by the Family Support Act of 1988, and that the number of families receiving AFDC will rise to 4 million.

TABLE 1. (Continued)

State	AFDC Plus Food Stamp Benefits as a Percentage of Poverty Guidelines for a Family of Three, 1989[a]	Federal Share of AFDC Benefit Payments in 1990
New Hampshire	73	50.00
New Jersey	67	50.00
New Mexico	54	72.25
New York	77	50.00
North Carolina	54	67.46
North Dakota	64	67.52
Ohio	59	59.57
Oklahoma	59	68.29
Oregon	67	62.95
Pennsylvania	64	56.86
Rhode Island	75	55.15
South Carolina	49	73.07
South Dakota	63	70.90
Tennessee	46	69.64
Texas	47	61.23
Utah	63	74.70
Vermont	85	62.77
Virginia	56	50.00
Washington	73	53.88
West Virginia	53	76.61
Wisconsin	75	59.28
Wyoming	62	65.95

SOURCE: Congressional Budget Office estimates; Committee on Ways and Means, U. S. House of Representatives, *Background Material and Data on Programs Within the Jurisdiction of the Committee on Ways and Means* (March 1989), Table 16, pp. 551-553.

a. These estimates use the variables specified in S. 862 for calculating an AFDC minimum benefit standard: the standard deduction in the Food Stamp program ($106 in the continental United States in 1989) and the poverty guidelines published by the Department of Health and Human Services ($10,060 in the continental United States in 1989 for a family of three divided by 12, resulting in $838 a month).

Medicaid

The Medicaid program pays for medical services for specified groups of needy people or families. States design and administer their own programs, setting standards for eligibility and coverage within broad federal guidelines. At a minimum, states must cover all AFDC recipients, most aged and disabled recipients of Supplemental Security Income (SSI), and certain pregnant women and children. In addition, states have the option of extending coverage to other low-income people. As with AFDC, states and the federal government share in the financing of the program. S. 862 raises the federal matching rates in Medicaid. States may use the Medicaid matching rates in AFDC as well, and currently all states do.

The Medicaid program has grown rapidly during the past decade, reflecting legislatively mandated expansions, rising prices of medical care, larger numbers of recipients, and greater use of services by recipients. Federal outlays have risen from $12.8 billion in fiscal year 1980 to an estimated $34.2 billion in 1989, an average annual growth of 11.5 percent. By 1994, CBO estimates that federal outlays will rise to $57.0 billion under current law.

Programs Slated for Termination

S. 862 terminates 14 federal programs that now provide grants to states and localities (see Appendix A). Two of these programs are not included in this analysis. Urban development action grants have already been repealed, and funding for mass transportation university research grants, at $5 million for fiscal year 1989, is not enough to be significant on an aggregate or state-by-state basis. The remaining programs include assistance for a broad range of activities, including transportation, social services, community development, education, and environmental protection. They are largely discretionary programs, which depend on annual appropriations, but a few are entitlement programs. The following is a brief description of the programs targeted for elimination:

- *Mass Transportation.* States and local agencies receive formula grant funds to defray partially mass transit capital and operating expenses, including construction, acquisition, and improvement of new and existing facilities and equipment. In addition, states and localities that withdrew previously approved segments of the Interstate Highway System receive grants for substitute transit projects under the Urban Mass Transportation Administration (UMTA) interstate transfer grants program.

- *Social Services and Community Services Programs.* Social services block grants (SSBGs) encourage states to furnish a variety of social services best suited to the needs of individuals in each state. Community services block grants (CSBGs) fund a wide range of services and activities, including employment, education, housing, and nutrition.

- *Community Development Programs.* S. 862 repeals four programs in this area. The community development block grant (CDBG) program and the Economic Development Administration (EDA) fund state and local efforts to promote decent housing and economic opportunity for low- and moderate-income people and to reduce unemployment in economically distressed areas. Rural water and waste disposal grants assist rural communities that would be unable to obtain private financing to build adequate waste and water systems. Finally, the Appalachian Regional Commission (ARC) provides grants for a number of activities to stimulate the economic and social development of Appalachia.

- *Education Programs.* The bill eliminates three education programs. Chapter 2 of the Elementary and Secondary Education Act of 1965 (ESEA) authorizes block grants to states to improve the quality of education for children in public and private schools. Through the impact aid program, school districts receive payments to offset the cost of educating children who reside on and/or whose parents work on federal property or are in the uniformed services, as well as children who reside on certain Indian lands or in federally subsidized, low-rent housing. Finally, states receive funds through the vocational education grant program.

- *Environmental Protection.* Environmental Protection Agency (EPA) construction grants contribute to the attainment of water quality standards by providing funds for local public agencies to construct municipal wastewater treatment facilities.

In general, since fiscal year 1980, nominal funding for federal grants to states has increased only moderately, and in some cases has declined. Total outlays for grants to states grew from $91.5 billion in fiscal year 1980 to $115.3 billion in fiscal year 1988, an average annual growth of 3 percent. Within that general category, however, outlays for most of the larger grant programs affected by this bill declined. In this period, for example, community development grants declined from $3.9 billion to $3.1 billion, outlays for social services grants declined from $2.8 billion to $2.7 billion, and EPA construction grants dropped from $4.3 billion to $2.5 billion.[1]

HOW CBO APPROACHED THE STUDY

This study, as requested by the Family Support Act of 1988, focuses on the estimated effects of S. 862 on federal and state government budgets. It presents estimates for two fiscal years: 1989 and 1994. For each year, the estimates assume that the proposal, or the particular phase of the proposal, would be fully effective. This approach differs from CBO's typical cost estimate, which shows costs over a five-year period, currently ending with 1994. In addition, the typical approach usually includes lower savings or costs in the early years of a proposed change, because the full effect on outlays of program changes may not be evident for a number of years. For grant programs, some current outlays stem from appropriations in previous years, which would not be affected by the proposed change, thus reducing federal savings from the repeal of programs in the early years. For entitlement programs, state legislatures may be required to act, thereby delaying implementation, or people who are newly eligible for benefits may enter the program slowly, thereby reducing costs in the early years.

This approach was necessary because the proposal's provisions are phased in over time, and are not actually fully carried out until well after the year 2000 (about 2010 were the proposal enacted next year)--a point beyond CBO's estimating period. Thus, 1994 was chosen as the year in which to estimate the total budgetary effects.

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[1] Office of Management and Budget, *Special Analyses, Budget of the United States Government, Fiscal Year 1990* (1989), p. H-25.

The study also shows estimates for 1989. The 1989 estimates provide a better idea of the budgetary effects of the earliest phases of the proposal. Moreover, the estimates for 1989 are more certain, particularly concerning the distribution of the budgetary effects by state. For states, in fact, CBO shows estimated effects only for 1989. The 1989 estimates, when compared with 1994, also allow a comparison of how the budgetary effects of the proposal would change over time.

Because the proposal is phased in over time, changing every year over a 20-year period, CBO developed estimates for four phases of the proposal in order to make the study more manageable. In the pages that follow, estimates are shown for four phases of the AFDC minimum benefit provision: mandating the minimum benefit standard at 50 percent, 65 percent, 75 percent, and 90 percent of the poverty guidelines. All of these phases include a 90 percent federal matching rate on AFDC payments up to the minimum benefit standard. In a similar manner, estimates are shown for four phases of the provision raising the federal matching rates in Medicaid: raising rates by 2 percentage points, 10 percentage points, 20 percentage points, and 40 percentage points. With an increase of 40 percentage points, the federal matching rate would be at 90 percent in all states. (For states with matching rates greater than 50 percent, an increase to 90 percent would require an increase of less than 40 percentage points.) Thus, estimates for the last phase of the proposal--an AFDC minimum benefit standard at 90 percent of poverty and a federal matching rate in Medicaid at 90 percent--show the maximum federal costs of the AFDC and Medicaid provisions of S. 862.

Estimates for all four phases, rather than for just the final phase, provide information to assess how and where to change the proposal to meet the goal of budget neutrality, as set forth in the study's mandate. This study only briefly mentions ways in which budget neutrality can be achieved. Many possible combinations of program changes would move the proposal toward budget neutrality. By providing the estimated effects for various phases of the proposal, this study provides the information that will allow Congressional policymakers to make choices among the various program changes.

The study does not discuss the effects on local governments that were mentioned in the study request. The data required for such analyses probably do not exist and, in any event, would have required a monumental collection effort. Thus, the study deals only with effects on individual states, subsuming any local effects in the state estimates. (In the text, the term "states" should be taken to mean states and localities.)

As with all CBO estimates of legislative effects, costs or savings represent incremental changes from spending levels under current law. For example, if the study says that a 10 percentage-point increase in the federal matching rate in Medicaid would cost the federal government $9.3 billion in 1994, that is $9.3 billion more than CBO's baseline projection for federal government spending on Medicaid.

Estimated Budgetary Effects and State Behavior

The estimates in this study do not include any state spending changes in AFDC and Medicaid other than those required by S. 862. That is, the estimates do not include any changes in state spending on AFDC and Medicaid that might be induced by the bill's provisions. Even if overall budget neutrality for states were attained, and CBO's estimates indicate that it would not be, states would be affected quite differently. Some would save money, but others would face higher costs. How would they react? In particular, would those states with significant savings choose to spend part or all of their savings and, if so, on which programs?

In addition to the effects on their budgets, the states would have another reason to raise their spending on Medicaid and AFDC above levels required by the bill or projected by CBO after the bill takes effect. The increased federal matching rates in AFDC and Medicaid, taken alone, would certainly cause states to spend more on these programs. In Medicaid, an increase in benefits of $1 would cost states only 10 cents after the 90 percent federal matching rate was fully phased in, a strong inducement to raise spending. In AFDC, the inducement would be much less because federal matching rates would remain at levels under current law for any increase in benefit standards above the mandated minimum. However, states providing benefits with a time limit to AFDC-Unemployed Parent families could remove that limit at a cost of only 10 cents for every $1 increase in benefits up to the mandated benefit standard.

By how much states would increase their spending as a result is unknown. No firm evidence exists that addresses such issues for specific programs such as Medicaid, and any effects would be further complicated by interactions with other components of the bill's proposals (for example, the loss of federal grant funds).

As a result of the bill's incentives, however, state spending on Medicaid and to a lesser extent on AFDC would probably increase beyond CBO's projected levels for the proposal. If this happened, federal costs would be higher than shown in this study, and state savings would be lower or costs higher. Examples of how much these induced effects could change the federal budgetary outcomes are shown in the next chapter.

The loss of the federal grant funds further complicates the state estimates of the bill's combined changes. For purposes of illustrating the total effect of the three changes in the AFDC, Medicaid, and grant programs, CBO assumed that state spending on the repealed grant programs would replace the lost federal spending. This assumption allowed CBO to say that state "costs" had increased and to add these costs to the effects on state budgets from the AFDC and Medicaid changes. In actuality, states would be unlikely to replace fully the federal funds, which would raise the state savings or lower the state costs estimated in this study.[2] (Federal costs would be unaffected by changing this assumption concerning the effects of the grant repeals on state budgets.)

Alternative Perspectives

Altering federal and state roles in the financing of government programs would have many impacts apart from those on federal and state budgets. From a state's perspective, the amount of federal funds flowing to or from the state and the impacts of the changes on state residents are of great interest. While this study focuses on the budgetary impacts, this section briefly notes other effects.

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[2] Existing evidence indicates that states do not fully replace lost federal grant funds. See, for example, Department of the Treasury, Office of State and Local Finance, *Federal-State-Local Fiscal Relations* (September 1985); and Richard P. Nathan, Fred C. Doolittle, and Associates, *The Consequences of Cuts* (Princeton: Princeton Urban and Regional Research Center, 1983).

The regional effects of the flow of federal funds differ dramatically from the regional effects on state budgets. The South, which alone among regions was estimated to have increased state budgetary costs from the bill, would actually receive more than one-quarter of the new federal funds flowing to states when the proposal was fully phased in. Of the new federal funds, the Midwest would receive an estimated $5.5 billion (25 percent of the total); the Northeast, $7.4 billion (33 percent); the South, $5.7 billion (26 percent); and the West $3.6 billion (16 percent). The shares of new federal funds received by the South and the West would be lower than their shares of the U.S. population. The Northeast would receive a larger share of funds than its population share, and the Midwest's shares would be about equal.

The cause of this difference in the effects on regional budgets and the flow of federal funds comes from the proposed changes in AFDC. Those states that would have to raise their AFDC benefit standards the most would have the highest state budgetary costs or lowest savings. At the same time, they would receive the most new federal funds because the federal government would have to pay for almost the entire cost of the increase in the benefit standard. (Given CBO's estimating methodology, the bill's change in the federal matching rate in Medicaid and grant repeals would affect state budgets by the same amounts that the flow of federal funds changed.)

This bill would also have important effects on families, most of them with low incomes. Medicaid benefits of low-income families would probably be increased because of the bill's inducement to spend more, although this study has made no attempt to estimate the size of these higher benefits. Because of the repeal of the federal grants, and the likelihood that states would not fully offset this loss of funds, some people would receive lower benefits or services. One of the largest effects of the bill--and one measured in this study and discussed in Appendix B--would be to increase the standard of living of families who were current or new recipients of AFDC.

Virtually all of the families currently receiving AFDC--an estimated 3.5 million--would have their benefits increased when the minimum benefit standard was at 90 percent of the poverty guidelines. Their estimated AFDC benefits in 1989 would rise by an average of $289 a month ($3,468 a year), an increase of three-quarters from levels under current law. Benefit increases would vary sharply among regions, ranging from increases of $120 a month in the West to $453 a month in the South.

Benefit changes of this size would represent very large increases in the incomes of these families, most of whom would have incomes below poverty. The standard of living of most of these families would increase by somewhat smaller amounts, however, because their Food Stamp benefits would be reduced by about one-third of the amount of their increased AFDC benefits.

In addition to families already receiving AFDC, the increased benefit standards would bring new families onto AFDC. Based on CBO estimates, 705,000 new families would come onto AFDC, an increase of one-fifth in families receiving AFDC. These families are estimated to receive AFDC benefits averaging $402 a month ($4,824 a year). In addition to AFDC benefits, most of these families would become newly eligible for Medicaid, raising their standard of living even further.

CHAPTER II

CHANGING THE NATURE OF FEDERAL RESPONSIBILITIES

S. 862 would have major effects on the budgets of federal and state governments. This chapter considers the aggregate effects on the federal government, state governments, and the two together. The effects on federal and state budgets of the provisions to change AFDC and Medicaid and to repeal the specified grant programs are first discussed separately. Then the combined effects on federal and state budgets of all three provisions are discussed. A brief discussion of the issue of budget neutrality ends this section.

EFFECTS OF A MINIMUM BENEFIT STANDARD AND A HIGHER MATCHING RATE IN AFDC

Net costs (that is, federal costs less state savings) would increase as the minimum benefit standard would be set at higher percentages of the poverty guidelines. At 50 percent of poverty, net costs would amount to only $0.2 billion in 1989 (see Table 2). Costs would rise to $2.6 billion at 65 percent of poverty, $5.5 billion at 75 percent, and $12.2 billion at 90 percent, representing increases in AFDC benefit payments of 20 percent, 40 percent, and 90 percent, respectively.

By 1994, costs of mandating the minimum benefit standard at each percentage of poverty would have risen by 30 percent to 40 percent compared with 1989. For example, with an AFDC minimum benefit standard at 90 percent of poverty, estimated costs would increase from $12.2 billion in 1989 to $15.9 billion in 1994, as shown in Table 2. Projected costs would be higher in later years because benefit increases in AFDC under current law are projected to rise by less than increases in the poverty guidelines, which are tied to increases in the Consumer Price Index (CPI). (For more detail on this issue, and on other aspects of the increase in the AFDC minimum benefit standard, see Appendix B.)

These net costs largely reflect increases in benefit payments to AFDC recipients that result from mandating minimum benefit standards. In addition to AFDC benefits, however, costs include increased costs of administering AFDC, increased Medicaid costs, and reduced Food Stamp costs. Medicaid costs would increase because families are automatically eligible for Medicaid if they are on AFDC. Thus, families who would participate in AFDC for the first time as a result

TABLE 2. ESTIMATED BUDGETARY EFFECTS OF MANDATING AN AFDC MINIMUM BENEFIT STANDARD AND INCREASING THE AFDC FEDERAL MATCHING RATE (In billions of dollars)

Minimum Benefit Standard as a Percentage of Poverty	1989	1994
	Federal Costs[a]	
50 Percent	2.8	3.4
65 Percent	6.6	8.2
75 Percent	9.9	12.5
90 Percent	16.1	20.2
	State Savings[a]	
50 Percent	-2.5	-3.1
65 Percent	-4.0	-4.8
75 Percent	-4.3	-5.0
90 Percent	-3.8	-4.3
	Net Costs[b]	
50 Percent	0.2	0.3
65 Percent	2.6	3.4
75 Percent	5.5	7.5
90 Percent	12.2	15.9

SOURCE: Congressional Budget Office estimates.

NOTE: Savings are shown as negative numbers.

a. Effects are based on a 90 percent federal matching rate for AFDC payments up to the mandatory minimum benefit standard.

b. Costs include those in the AFDC, Medicaid, and Food Stamp programs.

of the increased benefit standards would become new Medicaid recipients if they had not already been receiving benefits. Food Stamp costs would decrease because AFDC benefits are counted as income for participating families. Thus, when the increased AFDC standard raises AFDC payments to families, those also receiving Food Stamp benefits would receive less.

Costs of federal and state governments combined reflect only the mandated AFDC minimum benefit standard. Budgetary effects on the federal government and on state governments separately, however, also reflect the fiscal relief provided by the bill in the form of a 90 percent federal matching rate on AFDC payments up to the minimum benefit standard. As a result, state governments on the whole would save money, and federal government costs would be even higher. State savings in 1989 would rise from $2.5 billion at 50 percent of poverty to $3.8 billion at 90 percent. Federal costs would amount to $2.8 billion at 50 percent of poverty, a 30 percent increase in federal AFDC benefit payments. At 90 percent of poverty, federal costs would amount to $16.1 billion, a 214 percent increase in federal AFDC benefit payments.

These estimates do not include any effects on federal and state spending from changes in the behavior of states induced by the bill's proposals, as discussed earlier. Although some states would be required to increase their spending as a result of the AFDC changes, other states with high benefit levels under current law would save money because of the increased federal matching rate. As a result, some states might spend more on AFDC, which would raise federal costs and lower state savings relative to these estimates. Some examples of these induced effects are shown in the part of this chapter that deals with combined changes.

These estimated AFDC costs are understated further because they do not include costs associated with reduced working time by AFDC recipients. This issue is discussed in more detail in Appendix C.

EFFECTS OF A HIGHER MATCHING RATE IN MEDICAID

Raising the federal matching rate in Medicaid would not affect total costs unless states increased spending as a result of reduced costs from their lower matching rates. In CBO's analysis, no such effects were included, and federal costs were assumed to offset state savings. Federal costs and state savings would equal $1.1 billion in 1989 with an increase in the federal matching rate of 2 percentage points, $5.6 billion with an increase of 10 percentage points, $11.0 billion with an increase of 20 percentage points, and $19.0 billion with an increase of 40 percentage points (see Table 3). Federal benefit payments in 1989 would increase 4 percent, 18 percent, 36 percent, and 61 percent, respectively, from their levels under current law.

Costs and savings of each phase in 1994 would be two-thirds higher than in 1989. With a federal matching rate of 90 percent--a 40 percentage-point increase--federal costs and state savings would be $31.6

TABLE 3. ESTIMATED BUDGETARY EFFECTS OF RAISING THE FEDERAL MATCHING RATE IN MEDICAID (In billions of dollars)

Increase in Federal Matching Rate (Percentage points)[a]	1989	1994
	Federal Costs	
2	1.1	1.9
10	5.6	9.3
20	11.0	18.3
40	19.0	31.6
	State Savings	
2	-1.1	-1.9
10	-5.6	-9.3
20	-11.0	-18.3
40	-19.0	-31.6

SOURCE: Congressional Budget Office estimates.

NOTE: Savings are shown as negative numbers.

a. The federal matching rate would never exceed 90 percent. Thus, only those states with a matching rate of 50 percent (the legislated minimum) would ever receive the full increase of 40 percentage points.

billion compared with $19.0 billion in 1989. These increases above 1989 levels reflect projected increases in Medicaid spending under current law.

The assumption that states would not increase spending on Medicaid when the federal matching rate was increased sharply and in isolation from other proposed changes in AFDC and grant programs is clearly an artificial one. If such a change in the matching rate were enacted in isolation, some states would certainly increase their spending by expanding coverage, including more services, or increasing reimbursements to providers.

EFFECTS OF REPEALING FEDERAL GRANT PROGRAMS

The federal government would save approximately $13.3 billion in 1989 and $14.0 billion in 1994 from the repeal of programs, assuming they were fully effective in those years (see Table 4). Grant receipts lost by state and local governments would be somewhat less, since the federal government spends some funds directly for administration and other purposes. While the full impact of these changes would not actually be felt for a number of years, these estimates illustrate the eventual magnitude of change.

About one-quarter of the federal savings (and state losses) from eliminating these programs would come from community development programs, with most of that from community development block grants. Slightly less than one-quarter would come from social services block grants and community services block grants, primarily the former. The remaining federal savings (state losses) would be split almost evenly among mass transit, education, and environmental programs. Four of the programs--Urban Mass Transportation Administration formula grants, SSBGs, CDBGs, and EPA construction grants--would account for $10.1 billion (76 percent) of the total federal savings for 1989.

TABLE 4. ESTIMATED BUDGETARY EFFECTS OF REPEALING SELECTED FEDERAL GRANT PROGRAMS (In billions of dollars)

	Federal Savings[a]		State Losses[a]	
	1989	1994	1989	1994
Urban Mass Transit Formula Grants	-2.0	-2.3	2.0	2.3
Urban Mass Transit Interstate Transfer Grants	-0.2	-0.2	0.2	0.2
Social Services Block Grants	-2.7	-2.7	2.7	2.7
Community Services Block Grants	-0.4	-0.5	0.3	0.4
Appalachian Regional Commission	-0.1	-0.1	0.1	0.1
Community Development Block Grants	-3.0	-3.0	3.0	3.0
Economic Development Administration	-0.2	-0.2	0.2	0.2
FmHA Rural Water and Waste Disposal Grants	-0.1	-0.1	0.1	0.1
Chapter 2, Elementary and Secondary Education Act--State Block Grants	-0.5	-0.6	0.5	0.5
Vocational Education Grants	-0.9	-1.1	0.8	1.0
Education Impact Aid	-0.7	-0.9	0.7	0.9
EPA Construction Grants	-2.4	-2.2	2.4	2.2
Total	-13.3	-14.0	13.1	13.8

SOURCE: Congressional Budget Office estimates.

NOTES: Savings are shown as negative numbers.

The programs included in this table are those specified by Section 301 of S. 862 (100th U.S. Congress). Two programs specified by that section are not included, however. Urban Development Action Grants have already been repealed, and funding for mass transportation university research grants, at $5 million for fiscal year 1989, is not enough to be significant on an aggregate or state-by-state basis.

FmHA = Farmers Home Administration
EPA = Environmental Protection Agency

[a] State receipts forgone may fall below federal outlays eliminated because of the costs of administering the programs at the federal level. Federal outlays are slightly understated, since the cost to administer some of these programs is not readily identifiable.

COMBINED CHANGES

CBO's analysis clearly shows that these proposals, in combination, would not achieve budget neutrality for either the federal government or state governments. Once the AFDC and Medicaid changes had been fully phased in, federal costs would significantly exceed savings realized by eliminating the specified grant programs. The converse would be true for the states, with savings exceeding costs.

The combined federal budgetary impact of the three changes would vary considerably according to the level of the AFDC minimum benefit standard and the federal matching rate in Medicaid. If one looks just at the AFDC changes and the repeal of the grant programs, federal savings from the repeals would outweigh the additional federal AFDC spending at the lower minimum benefit standards (see Table 5). With the minimum benefit standard at 90 percent of the poverty guidelines, however, federal costs would equal $2.8 billion. By 1994, federal costs at the highest minimum benefit standard would increase to $6.2 billion.

Aggregate state costs would be similar at each minimum benefit standard if just the AFDC changes and program repeals were combined. In 1989, state costs would fall slightly from $10.6 billion at the lowest minimum benefit standard to $9.3 billion at the highest. This pattern would change very little by 1994. Because the total (federal plus state) impact of the program repeals would be small, the total impact of the combined changes would differ only slightly from that of the AFDC changes alone.

Adding the change in the Medicaid matching rate to the other changes would increase federal costs and reduce state costs at each phase of the proposal (see Table 6). The federal government would save $9.4 billion in 1989 with a minimum benefit standard at 50 percent of the poverty guidelines and a 2 percentage-point increase in the federal Medicaid matching rate. Once the AFDC minimum benefit standard and the federal matching rate in Medicaid reached their highest levels, federal costs would have risen to $22.0 billion in 1989. By 1994, they would be $38.2 billion.

TABLE 5. ESTIMATED BUDGETARY EFFECTS OF COMBINING THE REPEAL OF SELECTED FEDERAL PROGRAMS WITH AN AFDC MINIMUM BENEFIT STANDARD AND HIGHER AFDC FEDERAL MATCHING RATE (In billions of dollars)

	1989	1994
Federal Costs or Savings		
Repeal Selected Grant Programs	-13.3	-14.0
Repeal Selected Grant Programs and Establish an AFDC Minimum Benefit Standard at the Following Percentages of Poverty:[a]		
50	-10.5	-10.6
65	-6.7	-5.8
75	-3.4	-1.5
90	2.8	6.2
State Costs		
Repeal Selected Grant Programs	13.1	13.8
Repeal Selected Grant Programs and Establish an AFDC Minimum Benefit Standard at the Following Percentages of Poverty:[a]		
50	10.6	10.7
65	9.1	9.0
75	8.7	8.8
90	9.3	9.5
Net Budgetary Effects		
Repeal Selected Grant Programs	-0.2	-0.2
Repeal Selected Grant Programs and Establish an AFDC Minimum Benefit Standard at the Following Percentages of Poverty:[a]		
50	b	0.1
65	2.4	3.2
75	5.3	7.3
90	12.1	15.7

SOURCE: Congressional Budget Office estimates.

NOTE: Savings are shown as negative numbers.

a. Effects are based on a 90 percent federal matching rate for AFDC payments up to the mandatory minimum benefit standard.

b. Represents less than $50 million.

The total savings realized by the states from the higher federal Medicaid matching rate and the AFDC changes would outweigh the loss of federal grant funds, once the minimum benefit standard and

TABLE 6. ESTIMATED BUDGETARY EFFECTS OF COMBINING THE REPEAL OF SELECTED FEDERAL PROGRAMS, AN AFDC MINIMUM BENEFIT STANDARD, AND AN INCREASED FEDERAL MATCHING RATE IN MEDICAID AND AFDC (In billions of dollars)

	1989	1994
Federal Costs or Savings		
Repeal Selected Grant Programs	-13.3	-14.0
Repeal Selected Grant Programs, Establish an AFDC Minimum Benefit Standard, and Increase the Federal Matching Rate in Medicaid and AFDC[a]		
Phase 1	-9.4	-8.7
Phase 2	-1.1	3.6
Phase 3	7.7	16.9
Phase 4	22.0	38.2
State Costs or Savings		
Repeal Selected Grant Programs	13.1	13.8
Repeal Selected Grant Programs, Establish an AFDC Minimum Benefit Standard, and Increase the Federal Matching Rate in Medicaid and AFDC[a]		
Phase 1	9.4	8.8
Phase 2	3.5	-0.4
Phase 3	-2.3	-9.7
Phase 4	-9.9	-22.4

SOURCE: Congressional Budget Office estimates.

NOTES: Savings are shown as negative numbers.

(Continued)

the change in the federal Medicaid matching rate were partially phased in. Once the final phase was reached, state savings would amount to $9.9 billion in 1989 and to $22.4 billion in 1994.

TABLE 6. (Continued)

	1989	1994
Net Budgetary Effects		
Repeal Selected Grant Programs	-0.2	-0.2
Repeal Selected Grant Programs, Establish an AFDC Minimum Benefit Standard, and Increase the Federal Matching Rate in Medicaid and AFDC[a]		
Phase 1	b	0.1
Phase 2	2.4	3.2
Phase 3	5.3	7.3
Phase 4	12.1	15.7

NOTES: Continued

The phases are as follows:

Phase 1 combines an AFDC minimum benefit standard at 50 percent of poverty with a 2 percentage-point increase in the federal matching rate in Medicaid.

Phase 2 combines an AFDC minimum benefit standard at 65 percent of poverty with a 10 percentage-point increase in the federal matching rate in Medicaid.

Phase 3 combines an AFDC minimum benefit standard at 75 percent of poverty with a 20 percentage-point increase in the federal matching rate in Medicaid.

Phase 4 combines an AFDC minimum benefit standard at 90 percent of poverty with a 40 percentage-point increase in the federal matching rate in Medicaid.

These combined budgetary effects differ from the sum of the three individual changes in AFDC, Medicaid, and grant programs. The costs of mandating an AFDC minimum benefit standard include higher Medicaid costs, estimated using current-law federal matching rates in Medicaid. For the combined estimates, however, these Medicaid costs were estimated using the proposed (higher) federal matching rates in Medicaid.

a. Estimates are based on a 90 percent federal matching rate for AFDC payments up to the mandatory minimum benefit standard.

b. Represents less than $50 million.

By 1994, federal costs (and state savings) would be much higher than in 1989, primarily reflecting differing projected growth in the affected programs. The two entitlement programs--AFDC and Medicaid--are projected to grow much faster than the federal grant programs, as has been true of program growth in the recent past. Because these trends would probably continue beyond 1994, the effects of the bill on federal and state budgets would be increasingly less neutral over time.

Budgetary Implications of State Behavior

The estimates in this paper, as discussed earlier, do not allow for any increases in state spending as a result of the bill's provisions, other than increases required by the bill. However, either because many states would save money or because the cost to them of a dollar increase in benefits in Medicaid (and to a small degree in AFDC) would be reduced, some states would probably be induced to spend more. When the provisions are fully carried out--that is, when the federal matching rate is 90 percent and the state matching rate is 10 percent in both AFDC and Medicaid--the increase in costs from induced state spending could be very large.

CBO estimated that aggregate state savings from the bill's combined changes would total $9.9 billion in 1989 and $22.4 billion in 1994. If some of these savings were used to fund increased state spending on Medicaid, federal government costs--given a 90 percent federal matching rate--would rise sharply. If states spent an additional $1 billion on Medicaid, for example, federal costs would rise by $9 billion, a 40 percent increase in the bill's estimated federal costs in 1989. An additional $5 billion in state spending on Medicaid would raise federal costs by $45 billion, resulting in a tripling of the bill's 1989 federal costs. While the existing evidence on such behavioral effects is meager and may not be relevant for a change in the federal matching rate to 90 percent, it is not inconsistent with effects of the size illustrated here.[1]

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[1] For estimates of price and income elasticities for AFDC benefits, see Edward M. Gramlich and Deborah S. Laren, "Migration and Income Redistribution Responsibilities," *The Journal of Human Resources*, vol. 19 (Fall 1984), pp. 489-511.

MAINTAINING BUDGET NEUTRALITY

As discussed earlier, the proposal as currently specified would not be budget neutral, even ignoring any changes in state behavior. In fact, it would add to overall spending by the federal and state governments, since mandating a minimum benefit standard in AFDC would cost considerable sums--$15.9 billion in 1994. Thus, as discussed here, "budget neutrality" means a reasonably even sharing of the net costs of the bill by the federal government and state governments.

As currently designed, the proposal after the early years of its phase-in would raise federal costs by more than the cost of the minimum benefit standard, thus resulting in savings to states. Moreover, if states were to respond to their reduced matching rates in AFDC and Medicaid by spending more than the bill required, federal costs would rise even more, as discussed above. Moving toward budget neutrality in that environment would be difficult, if not impossible.

In the early years of the proposal, when the AFDC minimum standard was around 50 percent of the poverty guidelines and the federal matching rate was up only a few percentage points in Medicaid, the federal government would save money and the states would lose funds. The obvious solutions to reduce this lack of budget neutrality in the early years would be to phase in the repeal of the specified grant programs or to move more quickly to a higher AFDC minimum benefit standard and/or higher federal matching rates in AFDC or Medicaid.

Without any changes in state behavior, about the time the AFDC minimum benefit standard reached 65 percent of the poverty guidelines and the federal matching rate in Medicaid was up 10 percentage points, the federal government would be experiencing costs and the states small savings (in 1994 dollars). When the proposal was fully phased in, the federal government would have costs totaling $38.2 billion in 1994 dollars and the states would have savings totaling $22.4 billion. After 1994, this imbalance would probably become worse. The federal costs of fiscal relief from the increased federal matching rate in Medicaid could be expected to rise faster than any federal government savings from the repeal of the grant programs, as a result of the varying growth in spending in the Medicaid and grant programs.

The purpose of this study is not to redesign the proposal in a way that would reduce federal costs and state savings, moving the proposal toward budget neutrality. But two obvious modifications of the proposal, in keeping with its basic design, would reduce federal costs: repeal more federal grant programs, or reduce the fiscal relief provided by the increased federal matching rates in AFDC and Medicaid.

Another $30 billion of federal savings from repealing more federal grant programs, would leave both the federal government and state governments with added costs of around $8 billion each in 1994 to pay for the costs of the AFDC minimum benefit standard at 90 percent of poverty, ignoring changes in state behavior. Given the likelihood of induced increases in state spending and the resulting large increase in federal costs, however, it would be necessary to repeal substantially more federal programs to achieve budget neutrality.

Alternatively, the AFDC or Medicaid proposals could be altered to achieve budget neutrality. This could be done in any number of ways--reducing the AFDC minimum benefit standard, the federal AFDC matching rate on benefits up to the minimum benefit standard, or the increase in the federal matching rate in Medicaid. However, because of the probable substantial inducement to raise state spending as a result of the higher federal matching rates, especially in Medicaid, reducing the matching rates might be the only means of achieving reasonable budget neutrality. For example, an AFDC minimum benefit standard set at 75 percent of the poverty guidelines, a 90 percent matching rate on AFDC benefits up to the minimum, and a five percentage-point increase in the federal matching rate in Medicaid would leave the federal and state governments with added costs of around $3.5 billion to $4.0 billion each in 1994. While this example ignores any induced state spending, and thus overstates budget neutrality to some degree, the relatively small increase in the Medicaid federal matching rate would substantially reduce induced state spending.

CHAPTER III

HOW CHANGED RESPONSIBILITIES WOULD AFFECT INDIVIDUAL STATE BUDGETS

The provisions of S. 862 would affect the states quite differently. Wide variations exist currently in the states' benefit levels in AFDC, matching rates in AFDC and Medicaid, and grant levels from the programs to be repealed. All three of these factors would contribute to the differing impacts on states and regions.

To some extent, the varying state and regional impacts would merely reflect the different number of people residing in the state or region. To adjust for such population differences, CBO calculated budgetary effects on a per capita basis. In addition, it compared each state's and region's share of U.S. net savings with each state's and region's share of the U.S. population. (This information is shown later in this chapter in Table 15 on page 52.)

Costs or savings in each state are shown only for 1989. One can gauge the direction of the effects from S. 862 in 1994, however, from the aggregate estimates for all states. Savings from the AFDC changes would be higher, and savings from the higher federal matching rate in Medicaid would be much greater. Finally, the loss of receipts from repealing the grant programs would be slightly higher. The combined effects of the three changes would thus be to reduce state costs or increase state savings in 1994 compared with 1989, primarily because of the growth rates in Medicaid.

As a way of summarizing the impacts on states, budgetary effects are also shown for the four census regions.[1] As with the previous section, impacts on states from the three proposed changes are discussed separately. A discussion of the three changes combined follows.

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[1] Discussions of the regional effects use the U.S. Bureau of the Census definitions of regions. The *Midwest* includes Illinois, Indiana, Iowa, Kansas, Michigan, Minnesota, Missouri, Nebraska, North Dakota, Ohio, South Dakota, and Wisconsin. The *Northeast* includes Connecticut, Maine, Massachusetts, New Hampshire, New Jersey, New York, Pennsylvania, Rhode Island, and Vermont. The *South* includes Alabama, Arkansas, Delaware, District of Columbia, Florida, Georgia, Kentucky, Louisiana, Maryland, Mississippi, North Carolina, Oklahoma, South Carolina, Tennessee, Texas, Virginia, and West Virginia. The *West* includes Alaska, Arizona, California, Colorado, Hawaii, Idaho, Montana, Nevada, New Mexico, Oregon, Utah, Washington, and Wyoming.

EFFECTS ON THE STATES OF A MINIMUM BENEFIT STANDARD AND A HIGHER MATCHING RATE IN AFDC

The effects of the minimum benefit standard and higher federal matching rate in AFDC would vary widely among states. How states are affected would depend on their maximum benefit standards under current law and on their federal matching rates (disregarding different numbers of recipients). If a state's maximum benefit levels under current law fell below the mandatory minimum benefit standard, the state would have to raise its benefits, paying 10 percent of the additional cost. At the same time, a state's costs would decline by the difference between its federal matching rate under current law and the new 90 percent federal matching rate times its AFDC payments up to the minimum benefit standard.

Thus, the lower its maximum benefit under current law, the higher would be its costs from the minimum benefit change; the higher its federal matching rate under current law, the lower would be its savings per dollar spent from the increased federal matching rate. Often these two factors--a state's maximum benefit and its federal matching rate--are negatively associated; states with low maximum benefits are often those with high federal matching rates, because they are the states with the lower per capita incomes.

When one looks at the effects of the two AFDC changes together, a state's costs could rise or fall if it was affected by the minimum benefit provision. If a state was not affected by the minimum benefit provision, its costs would fall because of the increased federal matching rate. As the minimum benefit standard increased from 50 percent of the poverty guidelines to 90 percent, more states would have to raise their AFDC benefit standards. By the time it reached 90 percent of poverty, all states would have to raise their benefit standards.

To aid in understanding how the proposed S. 862 changes would affect states, depending on their circumstances, this section of the study uses estimates for two states--Alabama and Minnesota. Alabama represents a state where spending would increase as a result of the combined changes from S. 862, and Minnesota is a state where spending would decrease. Their populations are similar; Alabama had 4.1 million people in 1988, and Minnesota had 4.3 million.

TABLE 7. ESTIMATED BUDGETARY EFFECTS ON TWO STATES FROM MANDATING AN AFDC MINIMUM BENEFIT STANDARD AND INCREASING THE AFDC FEDERAL MATCHING RATE, 1989 (In millions of dollars)

State	Effect of a Mandatory Benefit Standard of 90 Percent of Poverty[a]	Effect of a Federal Matching Rate in AFDC of 90 Percent[b]	Effect of Combined Changes	AFDC and Food Stamp Benefit Under Current Law as a Percentage of Poverty	Federal Matching Rate Under Current Law (Percent)
Alabama	193	-118	75	42	73.21
Minnesota	64	-160	-96	76	52.74

SOURCE: Congressional Budget Office estimates.
NOTE: Savings are shown as negative numbers.

a. Costs include those in the AFDC, Medicaid, and Food Stamp programs.
b. The higher federal matching rate applies only for AFDC payments up to the mandatory minimum benefit standard.

As a result of the AFDC changes alone, Alabama's costs would increase and Minnesota's would decrease (see Table 7). Alabama would have to spend an additional $193 million to meet the mandated minimum benefit standard at 90 percent of poverty, but Minnesota would have to spend only an additional $64 million. Moreover, for minimum benefit standards from 50 percent to 75 percent, Alabama would incur additional spending, but Minnesota would be largely unaffected because its AFDC standard (plus Food Stamps) under current law is already above 75 percent of the poverty guidelines for all but the larger families.

Both states would save money from the increased federal matching rate, as would all states. Alabama would save less, however: $118 million compared with Minnesota's $160 million. As Table 7 shows, Alabama's federal matching rate under current law is 73.21 percent, which means it would save only 17 cents of every dollar spent (90 - 73.21 = 16.79). Minnesota, with its much lower federal matching rate of 52.74 percent, would save 37 cents of every dollar spent (90 - 52.74 = 37.26). After both AFDC changes, Alabama would have costs of $75 million, including a threefold increase in state spending on AFDC benefits, and Minnesota would have savings of $96 million, a 63 percent reduction in state spending on AFDC benefits.

TABLE 8. ESTIMATED EFFECTS ON STATE AND LOCAL GOVERNMENT BUDGETS OF MANDATING AN AFDC MINIMUM BENEFIT STANDARD AND INCREASING THE AFDC FEDERAL MATCHING RATE, BY STATE, 1989 (In millions of dollars)

State	AFDC Minimum Benefit Standard as a Percentage of Poverty[a]			
	50	65	75	90
Alabama	1	26	35	75
Alaska	-5	-12	-17	-24
Arizona	-20	-28	-20	-11
Arkansas	-10	0	7	17
California	-418	-818	-1,121	-1,543
Colorado	-21	-34	-25	-6
Connecticut	-38	-73	-95	-96
Delaware	-7	-11	-8	-5
District of Columbia	-14	-24	-21	-16
Florida	-88	-92	-71	-35
Georgia	-56	-54	-36	-8
Hawaii	-6	-18	-27	-27
Idaho	-2	-2	-1	3
Illinois	-218	-318	-276	-209
Indiana	-27	-8	2	28
Iowa	-26	-49	-40	-30
Kansas	-19	-36	-31	-23
Kentucky	-22	-5	6	34
Louisiana	-26	10	31	71
Maine	-8	-17	-19	-16
Maryland	-57	-99	-86	-60
Massachusetts	-69	-135	-180	-211
Michigan	-169	-333	-408	-367
Minnesota	-34	-68	-96	-96
Mississippi	0	14	29	49
Missouri	-52	-53	-38	-5
Montana	-3	-6	-3	2
Nebraska	-10	-16	-11	-5
Nevada	-4	-7	-5	-2

(Continued)

TABLE 8. (Continued)

State	AFDC Minimum Benefit Standard as a Percentage of Poverty[a]			
	50	65	75	90
New Hampshire	-3	-7	-9	-9
New Jersey	-114	-212	-218	-184
New Mexico	-9	-6	-1	9
New York	-305	-606	-824	-762
North Carolina	-35	-30	-19	6
North Dakota	-3	-5	-4	-2
Ohio	-152	-215	-165	-92
Oklahoma	-17	-20	-13	6
Oregon	-18	-34	-42	-36
Pennsylvania	-126	-231	-201	-148
Rhode Island	-12	-22	-30	-26
South Carolina	-16	-8	3	24
South Dakota	-2	-4	-3	-0
Tennessee	-23	-16	4	25
Texas	-97	-36	10	112
Utah	-3	-6	1	10
Vermont	-3	-6	-9	-12
Virginia	-51	-68	-57	-41
Washington	-49	-101	-136	-113
West Virginia	-10	-4	6	21
Wisconsin	-39	-79	-106	-89
Wyoming	-3	-4	-3	-2
Total	-2,520	-3,990	-4,340	-3,815

SOURCE: Congressional Budget Office estimates.

NOTE: Savings are shown as negative numbers.

a. Estimates are based on a 90 percent federal matching rate for AFDC payments up to the mandatory minimum benefit standard.

A minority of states are estimated to have costs from changes in the minimum benefit standard and changes in the federal matching rate: 2 states at 50 percent of the poverty guidelines, 3 at 65 percent, 11 at 75 percent, and 16 at 90 percent.[2] At 90 percent, four states would have costs of around $50 million or more each in 1989: Alabama, Louisiana, Mississippi, and Texas (see Table 8 on page 32).

The remaining states would save money.[3] California would save the most--$1.5 billion, or 40 percent of net state savings at 90 percent of poverty; New York would save $0.8 billion, or 20 percent of net state savings. To some extent, these savings are large because California and New York have the largest populations, but this does not explain fully the size of their savings. Their savings are high because both states have high AFDC maximum benefit standards and federal matching rates of 50 percent, the lowest possible. At 90 percent of poverty, eight states would save more than $0.1 billion each in 1989, accounting for 93 percent of net state savings: California, Illinois, Massachusetts, Michigan, New Jersey, New York, Pennsylvania, and Washington.

Regionally, the budgetary effects would be distributed most unevenly, particularly when the changes were fully phased in. Only the South would have costs, totaling $0.3 billion.[4] The Midwest would save $0.9 billion, the Northeast would save $1.5 billion, and the West would save $1.7 billion (see Figure 1). The southern region has the lowest AFDC maximum benefit standards and the highest federal matching rates under current law. In the South, state benefit payments in AFDC would rise by 15 percent; in the Midwest, Northeast, and West, state payments would decline by 50 percent, 70 percent, and 65 percent, respectively.

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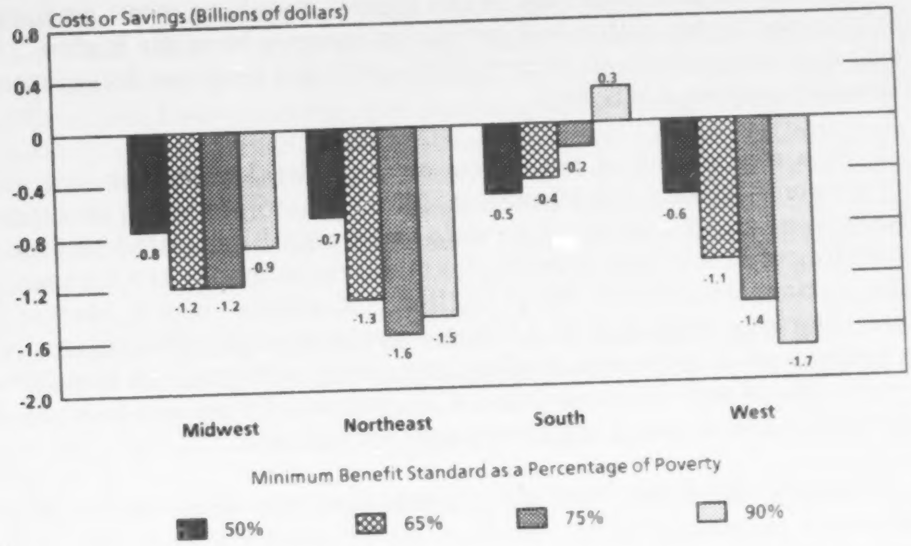
[2] Most of these state costs (all of the state costs in AFDC) would be eliminated by the bill's "hold harmless" provision (Section 141 of the bill). This provision was not part of the required study, which covered Sections 101, 204, and 301 of the bill. Nonetheless, CBO estimated the federal costs of the hold harmless provision to be less than $50 million when the minimum benefit standard was at 65 percent of the poverty guidelines, $0.1 billion at 75 percent, and $0.4 billion at 90 percent.

[3] The estimates of the AFDC and Medicaid changes do not include effects on the territories. In both programs, federal funding for territories is capped.

[4] As discussed in Chapter I, budgetary effects are only one way of assessing state and regional impacts. Although the South's budgetary costs would increase, it would receive $5.9 billion in new federal funds as a result of the AFDC changes, more than any other region would receive.

Figure 1.
Effects on State Budgets of Mandating an AFDC Minimum Benefit Standard and Increasing the AFDC Federal Matching Rate, by Region, 1989



SOURCE: Congressional Budget Office estimates.

NOTE: Savings are shown as negative numbers.

EFFECTS ON THE STATES OF A HIGHER MATCHING RATE IN MEDICAID

The effects of raising the federal matching rate in Medicaid would also vary widely among states. Although all states would save money, the amount of savings would depend on a state's level of Medicaid spending and on its federal matching rate under current law. Savings as a proportion of Medicaid spending would depend on a state's federal matching rate alone.

Although all states would benefit from increases in the federal matching rate up to 10 percentage points, some states would not benefit further from larger increases because they would already have reached the 90 percent federal matching rate limit. One state has a federal matching rate above 80 percent (Mississippi at 80.18 percent), 11 states have federal matching rates between 70 percent and 80 percent, 14 have rates between 60 percent and 70 percent, and 12 have rates above 50 percent but below 60 percent. A total of 13 states have federal matching rates at 50 percent and would benefit in full from the 40 percentage-point increase in the federal matching rate. As noted earlier, the states with lower per capita incomes have the higher federal matching rates and thus would benefit the least per dollar spent from this provision of S. 862.

In a comparison of the effects of the federal matching rate increases on Alabama and Minnesota, Minnesota would benefit substantially more (see Table 9). Minnesota--where 1989 estimated Medicaid spending of $1.4 billion (federal plus state) ranks among the highest in the nation--would save $510 million. Alabama--where Medicaid spending is an estimated $0.5 billion--would save only $77 million. As a percentage of the state's Medicaid spending under current law, Minnesota would save 79 percent and Alabama only 63 percent because of the differences in matching rates under current law.

Among all states, New York would save the most: $0.2 billion with a 2 percentage-point increase, rising to $4.4 billion with a 40 percentage-point increase, or almost one-quarter of total state savings (see Table 10 on page 38). California would also save large amounts, rising from $0.1 billion to $2.4 billion--or 13 percent of total state

TABLE 9. ESTIMATED BUDGETARY EFFECTS ON TWO STATES FROM INCREASING THE FEDERAL MATCHING RATE IN MEDICAID, 1989

	Change in State Spending on Medicaid		Federal Matching Rate Under Current Law (Percent)
State	Millions of dollars	Percent	
Alabama	-77	-63	73.21
Minnesota	-510	-79	52.74

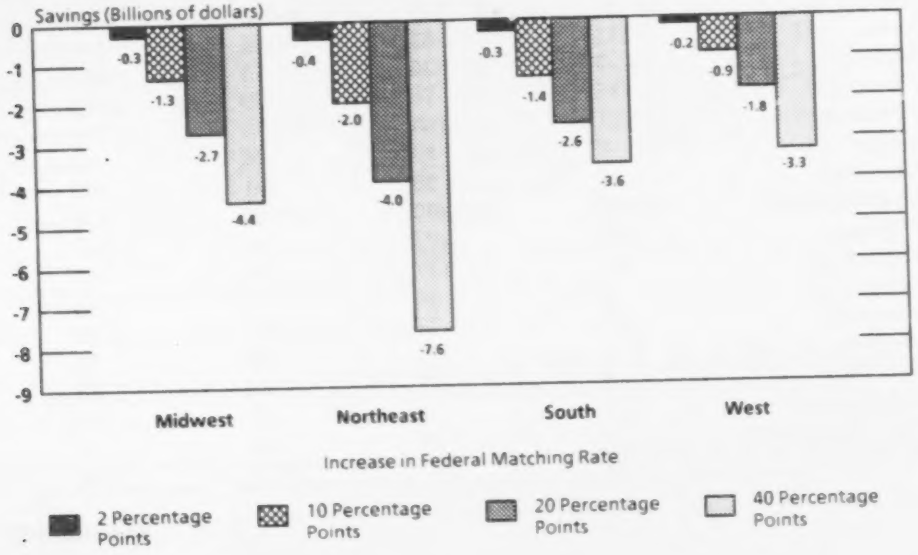
SOURCE: Congressional Budget Office estimates.

NOTE: Savings are shown as negative numbers.

savings--with increases of 2 percentage points and 40 percentage points, respectively. At the maximum federal matching rate of 90 percent, 11 states would save more than $0.5 billion in 1989, accounting for almost three-quarters of aggregate state savings: California, Florida, Illinois, Massachusetts, Michigan, Minnesota, New Jersey, New York, Ohio, Pennsylvania, and Texas. These states rank among the highest in population. They spend the most on Medicaid, and most of them also have relatively low matching rates under current law. Of these 11 states, 5 have 50 percent federal matching rates (California, Illinois, Massachusetts, New Jersey, and New York); 5 have rates above 50 percent but below 60 percent (Florida, Michigan, Minnesota, Ohio, and Pennsylvania); and 1 state (Texas) has a rate just above 60 percent.

Regionally, state savings would be distributed unevenly. As shown in Figure 2, the Midwest would save $4.4 billion (23 percent of

Figure 2.
Effects on State Budgets of Raising the Federal Matching Rate in Medicaid, by Region, 1989



SOURCE: Congressional Budget Office estimates.

NOTE: Savings are shown as negative numbers.

TABLE 10. ESTIMATED SAVINGS IN STATE AND LOCAL GOVERNMENT BUDGETS FROM INCREASING THE FEDERAL MATCHING RATE IN MEDICAID, BY STATE, 1989 (In millions of dollars)

	Increase in Federal Matching Rate by:[a]			
State	2 Percentage Points	10 Percentage Points	20 Percentage Points	40 Percentage Points
Alabama	-9	-46	-77	-77
Alaska	-2	-10	-19	-38
Arizona[b]	0	0	0	0
Arkansas	-10	-51	-79	-79
California	-120	-601	-1,202	-2,404
Colorado	-10	-51	-102	-193
Connecticut	-19	-93	-187	-374
Delaware	-2	-11	-22	-45
District of Columbia	-9	-45	-89	-179
Florida	-29	-147	-294	-519
Georgia	-22	-112	-225	-314
Hawaii	-3	-17	-35	-61
Idaho	-2	-11	-18	-18
Illinois	-44	-218	-435	-871
Indiana	-23	-115	-230	-302
Iowa	-11	-53	-105	-145
Kansas	-7	-36	-73	-124
Kentucky	-15	-76	-129	-129
Louisiana	-21	-103	-174	-174
Maine	-8	-38	-76	-94
Maryland	-19	-95	-191	-382
Massachusetts	-46	-230	-460	-920
Michigan	-46	-227	-455	-807
Minnesota	-27	-137	-274	-510
Mississippi	-9	-44	-44	-44
Missouri	-15	-77	-154	-238
Montana	-3	-15	-28	-28
Nebraska	-5	-27	-54	-78
Nevada	-2	-11	-21	-43
New Hampshire	-4	-18	-35	-71
New Jersey	-37	-187	-373	-746

(Continued)

TABLE 10. (Continued)

State	Increase in Federal Matching Rate by:[a]			
	2 Percentage Points	10 Percentage Points	20 Percentage Points	40 Percentage Points
New Mexico	-5	-23	-40	-40
New York	-221	-1,103	-2,206	-4,412
North Carolina	-21	-103	-206	-232
North Dakota	-4	-21	-41	-46
Ohio	-59	-297	-593	-903
Oklahoma	-13	-66	-131	-142
Oregon	-6	-32	-63	-86
Pennsylvania	-52	-259	-518	-859
Rhode Island	-7	-36	-71	-124
South Carolina	-11	-53	-89	-89
South Dakota	-3	-14	-28	-28
Tennessee	-20	-101	-202	-206
Texas	-44	-221	-441	-634
Utah	-4	-19	-29	-29
Vermont	-3	-13	-26	-35
Virginia	-17	-83	-165	-330
Washington	-19	-95	-189	-342
West Virginia	-6	-30	-41	-41
Wisconsin	-25	-125	-250	-385
Wyoming	-1	-6	-11	-13
Total	-1,120	-5,600	-11,005	-18,980

SOURCE: Congressional Budget Office estimates.

NOTE: Savings are shown as negative numbers.

a. The federal matching rate would never exceed 90 percent. Thus, only those states with a current-law matching rate of 50 percent (the legislated minimum) would ever receive the full increase of 40 percentage points.

b. No savings are shown for Arizona because it does not have a regular Medicaid program. Its program is directly negotiated with the Secretary of the Department of Health and Human Services.

all state savings), the Northeast $7.6 billion (40 percent), the South $3.6 billion (19 percent), and the West $3.3 billion (17 percent). Different levels of Medicaid spending cause much of this difference. As a proportion of the region's state spending on Medicaid benefits, the Midwest would save 75 percent, the Northeast 80 percent, the South 71 percent, and the West 77 percent. These latter differences among regions reflect different levels of average federal matching rates, with the South at the highest average level and the Northeast at the lowest.

EFFECTS ON THE STATES OF REPEALING FEDERAL GRANT PROGRAMS

Funds from the federal grant programs affected by this proposal are primarily distributed to states (and localities) on the basis of population. Two of the larger programs--mass transit formula grants and EPA construction grants--tend to favor urbanized areas. Thus, in general, the most populous areas would lose the largest share of the funds from the programs that would be repealed under S. 862. Table 11 illustrates the effect of the repeal of these programs on Alabama and Minnesota. As expected, these states would lose similar amounts, both

TABLE 11. ESTIMATED BUDGETARY EFFECTS ON TWO STATES FROM THE REPEAL OF SPECIFIED FEDERAL GRANT PROGRAMS, 1989

State	Loss in Federal Funds (Millions of dollars)	Population of State in 1988 (Millions)	Per Capita Personal Income in 1988 (Dollars)
Alabama	192	4.1	12,851
Minnesota	205	4.3	16,674

SOURCE: Congressional Budget Office estimates; population data are from Bureau of the Census, Press Release (CB89-47, March 29, 1989); per capita personal income figures are from Bureau of Economic Analysis, *Survey of Current Business* (August 1989), p. 34.

in total dollars and on a per capita basis in view of their similar population levels.

Table 12, on the following page, provides a state-by-state breakdown of the estimated losses in 1989 for all programs slated for elimination by this proposal. Not surprisingly, seven states--New York, California, Illinois, Texas, Pennsylvania, Ohio, and Florida, which account for 45 percent of the nation's population and which contain relatively urbanized areas--would also account for 45 percent of the funds estimated to be lost by all the states in 1989.

Similarly, on a per capita basis, the losses would be fairly even among all regions. The Northeast would lose the most money per capita, primarily because, as a relatively urbanized region, it receives a disproportionate share of Urban Mass Transit and EPA construction grants. Excluding these two programs, the loss of funds would be virtually even among the regions on a per capita basis.

Once the full impact of the proposal was felt, the South, with 34 percent of the nation's population, would experience 29 percent of the losses ($3.8 billion), primarily from the termination of EPA construction grants, SSBGs, and CDBGs. Furthermore, 24 percent of these losses ($3.1 billion) would fall in the Midwest, which has 24 percent of the nation's population; 25 percent of the losses ($3.3 billion) would fall in the Northeast, with 21 percent of the population; and 20 percent of the losses ($2.6 billion) would fall in the West, which has 21 percent of the population.

EFFECTS ON THE STATES OF COMBINED CHANGES

In the aggregate, state losses from the repeal of the specified grant programs would more than offset state savings from the AFDC and Medicaid changes until the federal matching rate in Medicaid was increased by 20 percentage points or more, as discussed earlier. The effects of these changes on individual states would follow this pattern; only a handful of states would save money before the federal matching rate in Medicaid was increased by 20 percentage points. Nonetheless, the effects on states would vary greatly.

TABLE 12. ESTIMATED LOSSES IN STATE AND LOCAL GOVERNMENT BUDGETS AS A RESULT OF REPEALING SELECTED FEDERAL GRANT PROGRAMS, BY STATE, 1989 (In millions of dollars)

State	UMTA Formula Grants	UMTA Interstate Transfer Grants	Social Services Block Grants	Community Services Block Grants	Appalachian Regional Commission	Community Development Block Grants
Alabama	8	0	45	6	17	48
Alaska	1	0	6	1	0	3
Arizona	13	0	36	3	0	29
Arkansas	2	0	26	5	0	25
California	293	9	299	30	0	309
Colorado	17	0	36	3	0	27
Connecticut	22	7	35	4	0	35
Delaware	4	0	7	1	0	7
District of Columbia	48	a	7	6	0	17
Florida	69	0	130	10	0	121
Georgia	27	0	68	9	6	63
Hawaii	17	0	12	1	0	14
Idaho	1	0	11	1	0	8
Illinois	171	101	128	16	0	164
Indiana	24	1	61	5	0	60
Iowa	7	a	32	4	0	34
Kansas	2	0	27	3	0	24
Kentucky	13	0	41	6	16	44
Louisiana	15	0	50	8	0	57
Maine	1	0	13	2	0	15
Maryland	34	12	50	5	5	49
Massachusetts	76	14	65	8	0	91
Michigan	50	0	101	13	0	122
Minnesota	24	a	47	4	0	49

SOURCE: Congressional Budget Office estimates.

NOTES: The programs included in this table are those specified by Section 301 of S. 862 (100th U.S. Congress). Two programs specified by that section are not included, however. Urban Development Action Grants have already been repealed, and funding for mass transportation university research grants, at $5 million for fiscal year 1989, is not enough to be significant on a state-by-state basis.

(Continued)

TABLE 12. Continued

Economic Development Administration	FmHA Rural Water and Waste Disposal Grants	Chapter 2 ESEA-State Block Grants	Vocational Education Grants	Education Impact Aid	EPA Construction Grants	Total for All Programs
6	4	8	17	7	26	192
3	a	2	4	79	14	113
3	2	6	11	61	16	182
5	6	5	9	2	13	99
8	4	49	72	71	164	1,308
3	a	6	10	11	16	129
1	1	6	9	7	30	156
a	a	2	4	0	10	35
1	0	2	4	5	15	106
3	4	18	34	14	103	506
7	3	12	23	9	42	269
a	0	2	4	23	25	99
5	1	2	4	5	12	50
6	3	22	36	12	135	795
7	2	11	21	2	54	247
2	2	6	10	1	33	131
2	1	5	8	11	21	104
5	4	8	15	1	27	180
3	4	9	19	9	25	200
3	3	2	5	3	19	66
3	1	8	14	8	74	262
1	2	10	18	12	87	384
6	4	18	33	7	93	448
6	3	8	14	5	45	205

FmHA = Farmers Home Administration
UMTA = Urban Mass Transportation Administration
ESEA = Elementary and Secondary Education Act
EPA = Environmental Protection Agency

a. Represents less than $500,000.

(Continued)

TABLE 12. Continued

State	UMTA Formula Grants	UMTA Interstate Transfer Grants	Social Services Block Grants	Community Services Block Grants	Appalachian Regional Commission	Community Development Block Grants
Mississippi	2	0	29	5	10	33
Missouri	27	0	56	9	0	65
Montana	2	0	9	1	0	07
Nebraska	6	0	18	2	0	16
Nevada	2	0	11	1	0	8
New Hampshire	2	0	11	1	0	9
New Jersey	145	2	85	9	0	98
New Mexico	4	0	16	2	0	14
New York	439	7	197	29	7	321
North Carolina	9	0	70	9	6	55
North Dakota	1	0	8	1	0	6
Ohio	68	6	119	13	5	143
Oklahoma	6	0	37	4	0	26
Oregon	14	a	30	3	0	25
Pennsylvania	129	0	132	14	17	196
Rhode Island	8	3	11	2	0	15
South Carolina	3	0	37	5	3	33
South Dakota	1	0	8	1	0	7
Tennessee	17	1	53	7	13	49
Texas	61	0	185	16	0	180
Utah	11	0	18	1	0	16
Vermont	1	0	6	1	0	6
Virginia	20	0	64	5	5	50
Washington	42	0	50	4	0	43
West Virginia	3	0	21	4	17	22
Wisconsin	26	0	53	4	0	55
Wyoming	a	0	6	1	0	3
Puerto Rico	17	0	14	14	0	106
Other Territories	0	0	1	2	0	0
Total	2,006	164	2,689	327	127	3,019

TABLE 12. Continued

Economic Development Administration	FmHA Rural Water and Waste Disposal Grants	Chapter 2 ESEA-State Block Grants	Vocational Education Grants	Education Impact Aid	EPA Construction Grants	Total for All Programs
5	4	6	11	4	25	135
3	3	9	18	7	50	248
2	1	2	4	25	8	61
1	1	3	6	10	15	77
2	a	2	4	4	11	45
a	1	2	4	3	25	59
3	2	14	20	14	79	470
2	a	3	6	40	10	98
8	3	32	54	12	279	1,390
5	5	12	25	10	50	256
3	1	2	4	10	9	45
6	4	21	38	5	132	561
6	6	6	12	27	20	149
3	2	5	9	3	27	121
8	5	21	40	5	94	663
a	a	2	4	3	17	66
6	3	7	14	8	25	145
1	1	2	4	16	10	51
4	2	9	19	4	38	217
13	5	34	58	30	106	689
1	a	4	7	10	12	82
2	1	2	4	a	12	35
4	4	10	19	42	53	276
5	2	8	14	29	49	246
5	3	4	8	a	40	127
5	2	9	17	7	55	233
a	a	2	4	8	9	34
3	4	9	15	1	29	212
0	3	0	5	2	9	24
197	122	481	847	704	2,399	13,082

For the two illustrative states, Table 13 summarizes and aggregates the changes already shown in earlier parts of this chapter. The three changes combined would cost Alabama $184 million and would save Minnesota $402 million. Both the AFDC changes and the Medicaid change, but particularly the latter, would favor Minnesota, the higher-income state.

Mandating the AFDC minimum benefit standard combined with the program repeals would cost all but one state money at every level of the minimum benefit (see Table 14 page 48). Only California would save money: an estimated $0.2 billion when the minimum benefit standard reached 90 percent of the poverty guidelines.

As the federal matching rate in Medicaid increased, however, a growing number of states would save money: 4 states with the federal matching rate increased by 10 percentage points, 16 with the matching rate increased by 20 percentage points, and 31 with the matching rate increased by 40 percentage points (see Phases 1 through 4, Table 14).

TABLE 13. ESTIMATED BUDGETARY EFFECTS ON TWO STATES OF THE COMBINED CHANGES, 1989 (In millions of dollars)

State	AFDC Changes	Medicaid Change	Programs Repealed	Combined Changes[a]
Alabama	75	-77	192	184
Minnesota	-96	-510	205	-402

SOURCE: Congressional Budget Office estimates.

NOTE: Savings are shown as negative numbers.

[a] These combined budgetary effects differ from the sum of the three individual changes in AFDC, Medicaid, and grant programs. The costs of mandating an AFDC minimum benefit standard include higher Medicaid costs, estimated using current-law federal matching rates in Medicaid. For the combined estimates, however, these Medicaid costs were estimated using the proposed (higher) federal matching rates in Medicaid.

Also, Figure 3, on page 50, shows the number of states by the size of their savings or costs as the federal matching rate in Medicaid increased. In Phase 2, in which the federal Medicaid matching rate is up 10 percentage points, those states with any savings would save a total of $0.6 billion and the remaining states would have costs of $4.0 billion. In Phase 3, in which the federal Medicaid matching rate is up 20 percentage points, savings would total $4.3 billion and costs $2.0 billion. In the final phase of the proposal (Phase 4), with the AFDC minimum benefit at 90 percent of the poverty guidelines and the federal matching rate in Medicaid at 90 percent, savings would total $11.5 billion and costs $1.6 billion.

In the final phase (Phase 4), four states would save more than $0.5 billion each, accounting for 80 percent of net state savings: New York ($3.8 billion), California ($2.6 billion), Massachusetts ($0.7 billion), and Michigan ($0.7 billion). These states are among the 10 states saving the most on a per capita basis, and their shares of U.S. savings are well above their shares of the U.S. population (see Table 15 on page 52). These states are among those benefiting most from the increased federal matching rate in Medicaid.

Regionally, state savings or losses would be distributed unevenly. The South alone would have costs: $1.0 billion in Phase 3 and $0.4 billion in Phase 4. Only 2 of the 17 states in the southern region would save money in Phase 3, and 6 of the 17 in Phase 4. Other regions would save money: the Midwest, $0.7 billion and $2.2 billion in Phases 3 and 4, respectively; the Northeast, $2.3 billion and $5.8 billion, respectively; and the West, $0.6 billion and $2.5 billion, respectively (see Figure 4 on page 54). When the changes are fully phased in, the Midwest would garner 22 percent of net state savings, the Northeast 57 percent, the West 24 percent, and the South would lose 4 percent.

Adjusting for population differences does not alter the general nature of these findings. As shown in Table 15, the Northeast would save the most on a per capita basis ($115), and its share of U.S. savings would be almost three times its share of the U.S. population. The West would save $49 per capita and the Midwest, $38; the West's share of savings would slightly exceed its share of the population, but the Midwest's share of savings would fall slightly below its share of the population. The South would experience costs of $5 per capita.

TABLE 14. ESTIMATED EFFECTS ON STATE AND LOCAL GOVERNMENT BUDGETS FROM COMBINING AN AFDC MINIMUM BENEFIT STANDARD, AN INCREASED FEDERAL MATCHING RATE IN MEDICAID AND AFDC, AND THE REPEAL OF SELECTED FEDERAL PROGRAMS, BY STATE, 1989 (In millions of dollars)

State	Combining AFDC Minimum Benefit Standard as a Percentage of Poverty and Program Repeals				Combining AFDC Minimum Benefit Standard, Medicaid and AFDC Matching Rate Changes, and Program Repeals[a]			
	50	65	75	90	Phase 1	Phase 2	Phase 3	Phase 4
Alabama	193	217	227	266	184	169	147	184
Alaska	108	101	96	90	106	91	76	51
Arizona	162	154	162	171	162	154	162	171
Arkansas	89	98	106	116	79	47	26	35
California	890	490	187	-234	770	-111	-1,014	-2,638
Colorado	109	95	105	123	98	44	1	-76
Connecticut	118	83	61	60	99	-10	-126	-314
Delaware	29	25	27	30	26	13	4	-16
District of Columbia	92	82	85	90	83	37	-5	-90
Florida	418	414	435	471	389	267	139	-54
Georgia	213	214	233	261	190	101	5	-59
Hawaii	93	81	72	72	89	64	37	10
Idaho	48	48	49	52	45	36	30	33
Illinois	577	477	519	586	534	259	81	-296
Indiana	220	239	249	275	197	121	13	-38
Iowa	105	82	90	101	94	30	-15	-45
Kansas	85	68	73	81	78	32	0	-44
Kentucky	158	175	186	214	143	99	55	81
Louisiana	174	210	231	271	153	105	53	90
Maine	58	49	47	50	50	11	-29	-44
Maryland	205	163	176	201	186	67	-16	-188
Massachusetts	316	249	204	174	270	19	-256	-747
Michigan	280	115	41	82	234	-112	-414	-727
Minnesota	171	137	109	109	143	0	-164	-402
Mississippi	135	149	165	184	126	104	119	138
Missouri	195	195	210	242	180	117	53	-4
Montana	58	56	58	63	55	40	29	34

SOURCE: Congressional Budget Office estimates.

NOTES: Savings are shown as negative numbers.

The phases cited in the table are as follows:

Phase 1 combines an AFDC minimum benefit standard at 50 percent of poverty with a 2 percentage-point increase in the federal matching rate in Medicaid.

Phase 2 combines an AFDC minimum benefit standard at 65 percent of poverty with a 10 percentage-point increase in the federal matching rate in Medicaid.

(Continued)

TABLE 14. (Continued)

State	Combining AFDC Minimum Benefit Standard as a Percentage of Poverty and Program Repeals 50	65	75	90	Combining AFDC Minimum Benefit Standard, Medicaid and AFDC Matching Rate Changes, and Program Repeals[a] Phase 1	Phase 2	Phase 3	Phase 4
Nebraska	67	62	67	72	62	35	13	-7
Nevada	41	38	40	44	38	27	18	-1
New Hampshire	55	52	50	50	52	34	14	-21
New Jersey	356	258	252	286	318	71	-121	-465
New Mexico	89	93	97	107	84	69	56	64
New York	1,085	784	566	629	864	-319	-1,640	-3,790
North Carolina	221	226	238	262	200	123	30	27
North Dakota	42	40	41	43	38	19	0	-4
Ohio	409	346	396	469	349	47	-208	-461
Oklahoma	133	129	137	155	120	63	4	10
Oregon	103	87	79	85	97	55	15	-1
Pennsylvania	536	432	462	515	485	172	-58	-353
Rhode Island	55	44	37	40	47	9	-34	-84
South Carolina	129	137	149	170	119	84	58	78
South Dakota	49	47	48	51	46	32	21	23
Tennessee	194	201	221	243	174	100	17	33
Texas	591	653	699	801	547	430	249	142
Utah	79	76	83	92	75	57	54	62
Vermont	32	29	26	23	29	16	0	-12
Virginia	225	208	220	235	208	125	54	-98
Washington	198	145	110	133	179	51	-79	-211
West Virginia	117	122	132	148	111	92	91	105
Wisconsin	193	154	127	144	168	29	-124	-242
Wyoming	31	30	31	32	30	24	19	18
Puerto Rico	212	212	212	212	212	212	212	212
Other Territories	24	24	24	24	24	24	24	24
Total	10,562	9,094	8,743	9,264	9,442	3,476	-2,325	-9,904

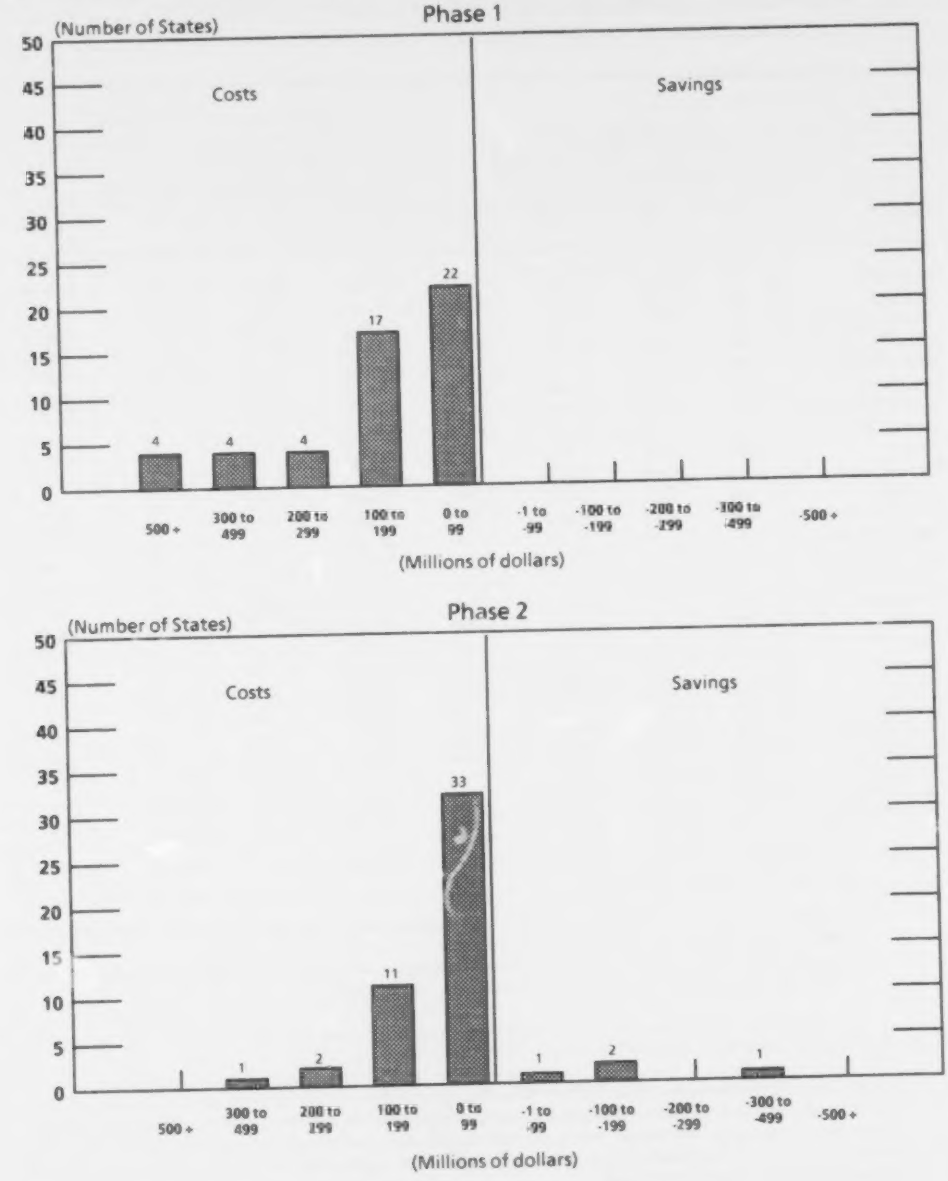
Phase 3 combines an AFDC minimum benefit standard at 75 percent of poverty with a 20 percentage-point increase in the federal matching rate in Medicaid.

Phase 4 combines an AFDC minimum benefit standard at 90 percent of poverty with a 40 percentage-point increase in the federal matching rate in Medicaid.

Estimates are based on a 90 percent federal matching rate for AFDC payments up to the minimum benefit standard.

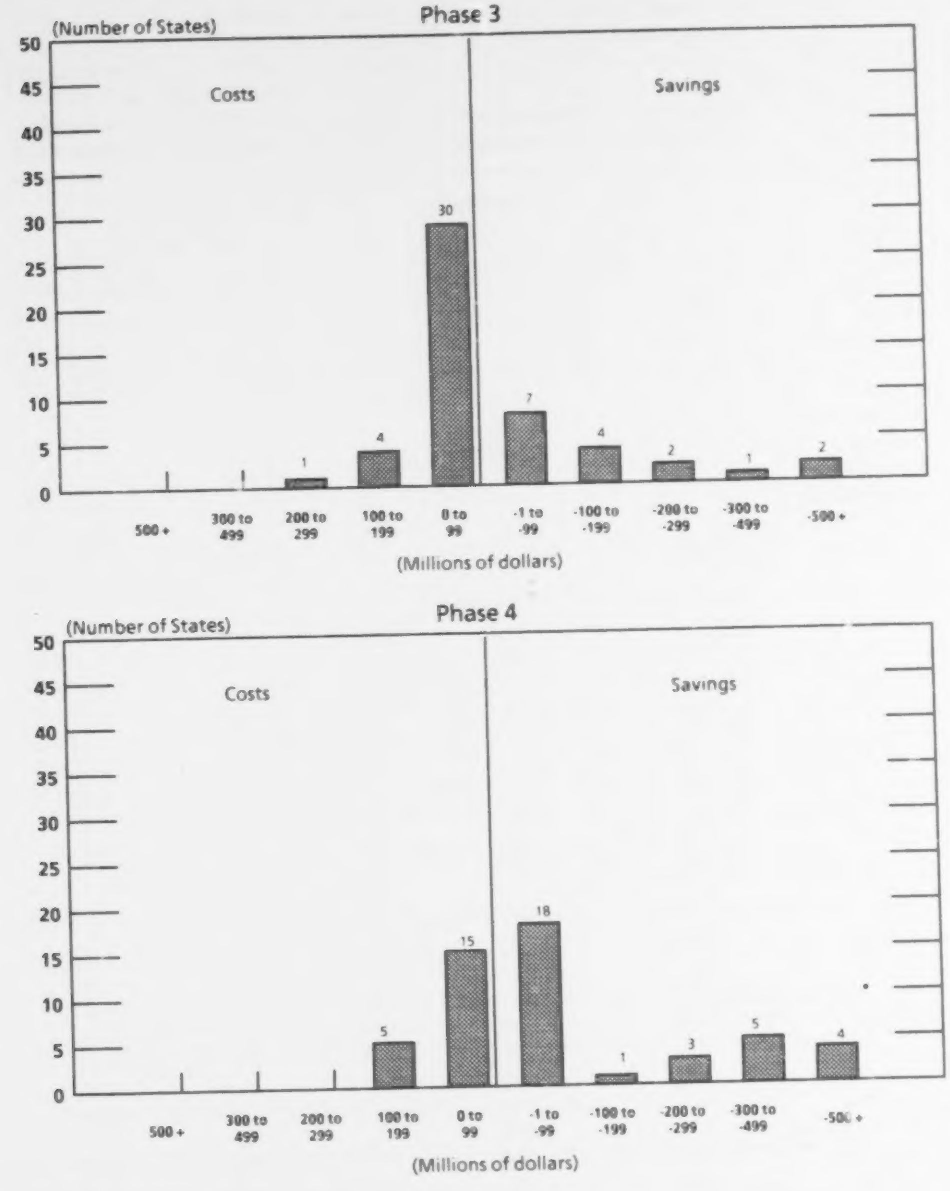
[a] These combined budgetary effects differ from the sum of the three individual changes in AFDC, Medicaid, and grant programs. The costs of mandating an AFDC minimum benefit standard include higher Medicaid costs, estimated using current-law federal matching rates in Medicaid. For the combined estimates, however, these Medicaid costs were estimated using the proposed (higher) federal matching rates in Medicaid.

Figure 3.
Distribution of States as S. 862 Is Phased in by Size of Costs or Savings (In millions of dollars)



SOURCE: Congressional Budget Office estimates.

Figure 3.
(Continued)



NOTE: Savings are shown as negative numbers.

TABLE 15. COMPARISONS OF STATE BUDGETARY EFFECTS AND POPULATION, BY STATE AND REGION, 1989

State	State Budgetary Effects: Phase 4 (Millions of dollars)	Population[a] (Thousands)	State Savings (-) or Costs Per Capita: Phase 4 (Dollars)	Percentage of U.S. Population	Percentage of U.S. Net Savings: Phase 4[b]
		MIDWEST			
Michigan	-727	9,240	-79	3.8	7.2
Ohio	-461	10,855	-42	4.4	4.5
Minnesota	-402	4,307	-93	1.8	4.0
Illinois	-296	11,614	-26	4.7	2.9
Wisconsin	-242	4,855	-50	2.0	2.4
Iowa	-45	2,834	-16	1.2	0.4
Kansas	-44	2,495	-18	1.0	0.4
Indiana	-38	5,556	-7	2.3	0.4
Nebraska	-7	1,602	-4	0.7	0.1
Missouri	-4	5,141	-1	2.1	c
North Dakota	-4	667	-6	0.3	c
South Dakota	23	713	32	0.3	-0.2
Subtotal	-2,247	59,879	-38	24.4	22.2
		NORTHEAST			
New York	-3,790	17,909	-212	7.3	37.4
Massachusetts	-747	5,889	-127	2.4	7.4
New Jersey	-465	7,721	-60	3.1	4.6
Pennsylvania	-353	12,001	-29	4.9	3.5
Connecticut	-314	3,233	-97	1.3	3.1
Rhode Island	-84	993	-84	0.4	0.8
Maine	-44	1,205	-37	0.5	0.4
New Hampshire	-21	1,085	-19	0.4	0.2
Vermont	-12	557	-21	0.2	-0.1
Subtotal	-5,830	50,593	-115	20.6	57.5
		SOUTH			
Maryland	-188	4,622	-41	1.9	1.8
Virginia	-98	6,015	-16	2.4	1.0
District of Columbia	-90	617	-146	0.3	0.9
Georgia	-59	6,342	-9	2.6	0.6
Florida	-54	12,335	-4	5.0	0.5
Delaware	-16	660	-24	0.3	0.2
Oklahoma	10	3,242	3	1.3	-0.1
North Carolina	27	6,489	4	2.6	-0.3
Tennessee	33	4,895	7	2.0	-0.3
Arkansas	35	2,395	15	1.0	-0.3
South Carolina	78	3,470	22	1.4	-0.8
Kentucky	81	3,727	22	1.5	-0.8

(Continued)

TABLE 15. (Continued)

State	State Budgetary Effects: Phase 4 (Millions of dollars)	Population[a] (Thousands)	State Savings (-) or Costs Per Capita: Phase 4 (Dollars)	Percentage of U.S. Population	Percentage of U.S. Net Savings: Phase 4[b]
		SOUTH (Continued)			
Louisiana	90	4,408	20	1.8	-0.9
West Virginia	105	1,876	56	0.8	-1.0
Mississippi	138	2,620	53	1.1	-1.4
Texas	142	16,841	8	6.9	-1.4
Alabama	184	4,102	45	1.7	-1.8
Subtotal	418	84,656	5	34.4	-4.1
		WEST			
California	-2,638	28,314	-93	11.5	26.0
Washington	-211	4,648	-45	1.9	2.1
Colorado	-76	3,301	-23	1.3	0.7
Nevada	-1	1,054	-1	0.4	c
Oregon	-1	2,767	-0	1.1	c
Hawaii	10	1,098	9	0.4	-0.1
Wyoming	18	479	38	0.2	-0.2
Idaho	33	1,003	33	0.4	-0.3
Montana	34	805	43	0.3	-0.3
Alaska	51	524	98	0.2	-0.5
Utah	62	1,690	37	0.7	-0.6
New Mexico	64	1,507	43	0.6	-0.6
Arizona	171	3,489	49	1.4	-1.7
Subtotal	-2,483	50,679	-49	20.6	24.5
Total	-10,141[d]	245,807	-41	1	1

SOURCE: Congressional Budget Office estimates; Bureau of the Census population estimates.

NOTES: Savings are shown as negative numbers.

Phase 4 combines an AFDC minimum benefit standard at 90 percent of poverty, a 90 percent federal matching rate for AFDC payments up to the minimum benefit standard, a 40-percentage-point increase in the federal matching rate in Medicaid, and repeal of the selected grant programs.

[a] Resident population of the United States, as of July 1, 1988.

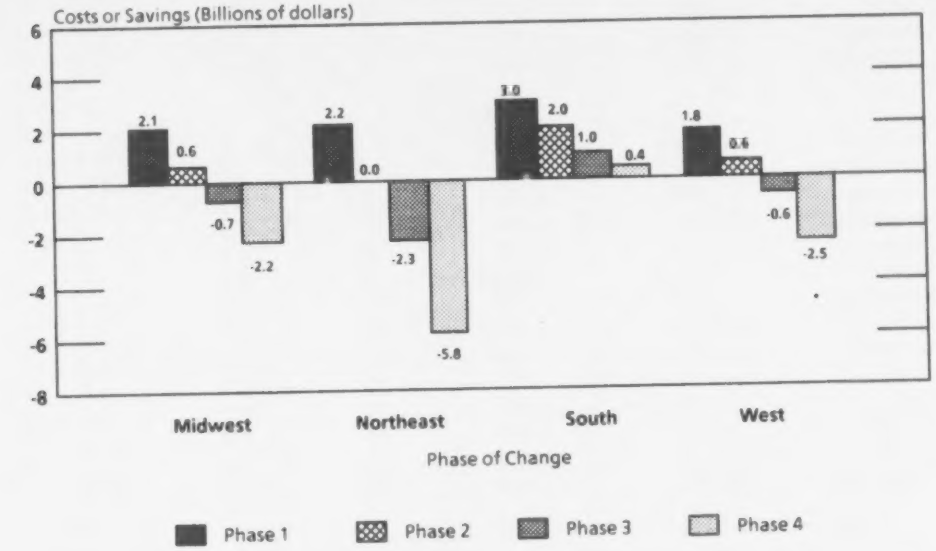
[b] A positive number indicates state savings and a negative number indicates state costs.

[c] Represents less than 0.1 percent.

[d] These net savings exclude the Territories.

Such an outcome for the South is not surprising. The South would be the only region to incur costs as a result of the minimum benefit standard and higher federal matching rate in AFDC. Its savings from the increased federal matching rate in Medicaid would be among the lowest by region, and would be the lowest as a proportion of the region's state spending on Medicaid. Finally, it would lose the most funds in absolute terms as a result of the repeal of the specified grant programs.

Figure 4.
Effects on State Budgets of Phasing in Combined Changes in AFDC, Medicaid, and Federal Grant Programs, by Region, 1989



SOURCE: Congressional Budget Office estimates.

NOTES: Savings are shown as negative numbers.

The phases are as follows:

Phase 1 combines an AFDC minimum benefit standard at 50 percent of poverty with a 2 percentage-point increase in the federal matching rate in Medicaid.

Phase 2 combines an AFDC minimum benefit standard at 65 percent of poverty with a 10 percentage-point increase in the federal matching rate in Medicaid.

Phase 3 combines an AFDC minimum benefit standard at 75 percent of poverty with a 20 percentage-point increase in the federal matching rate in Medicaid.

Phase 4 combines an AFDC minimum benefit standard at 90 percent of poverty with a 40 percentage-point increase in the federal matching rate in Medicaid.

The impacts on states and regions resulting from the program changes specified by the Partnership Act of 1987 are particularly interesting when they are compared with state and regional differences in fiscal capacity and per capita income. Recent studies conducted by the Advisory Commission on Intergovernmental Relations (ACIR) indicate that, in general, states in the Midwest, Northeast, and West have average or higher-than-average fiscal capacities, indicating a potentially stronger ability to replace lost federal funds with funds from other sources.[5] In contrast, ACIR indicators reveal that the southern states have a relatively weaker ability to raise revenues to support their various service needs. These findings suggest that the states hardest hit by the program changes being proposed would be least able to absorb higher costs or replace losses in federal aid.

Similarly, many of the areas that would save the most from the proposed changes when fully phased in would be those with the highest per capita incomes, such as New York and California, which are ranked sixth and eighth, respectively, in terms of 1988 per capita personal income. Many of those with the lowest per capita incomes would experience costs. For example, the five states with the lowest 1988 per capita personal incomes (Mississippi, West Virginia, Utah, Arkansas, and Louisiana) would have costs ranging from $35 million in Arkansas to $138 million in Mississippi. Regionally, the South had the lowest per capita personal income in 1988--averaging $14,793--and the Northeast the highest--averaging $19,214.

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[5] Carol E. Cohen, "State Fiscal Capacity and Effort: An Update," *Intergovernmental Perspective* (Spring 1989), pp. 15-20.

APPENDIXES

APPENDIX A

TERMINATION OF CERTAIN FEDERAL PROGRAMS AS SPECIFIED IN S. 862

Under S. 862, the federal programs to be terminated are as follows:

1. Urban Mass Transit Formula Grants: Section 9 of the Urban Mass Transportation Act of 1964.
2. Urban Mass Transit Interstate Transfer: Section 4(g) of the Urban Mass Transportation Act of 1964.
3. Social Services Block Grant: Title XX of the Social Security Act.
4. Community Services Block Grants: Community Services Block Grant Act.
5. Appalachian Regional Commission: Section 101 of the Appalachian Regional Development Act of 1965 (Public Law 89-4; 79 Stat. 5).
6. Community Development Block Grants: Title I of the Housing and Community Development Act of 1974.
7. Economic Development Administration: Public Works and Economic Development Act of 1965 (Public Law 89-136; 79 Stat. 552).
8. Rural Water and Waste Disposal: Section 306 of the Consolidated Farmers Home Administration Act of 1961 (7 U.S.C. 1926).
9. Consolidation of Education Programs: Chapter 2 of the Education Consolidation and Improvement Act of 1981.
10. Vocational Education: Carl D. Perkins Vocational Education Act.

11. Impact Aid:
    - The Act of September 23, 1950 (Public Law 815, 81st Congress).
    - The Act of September 30, 1950 (Public Law 874, 81st Congress).

12. Wastewater: Federal Water Pollution Control Act (33 U.S.C. 1251, et seq.). [EPA construction grants]

13. Urban Mass Transit Research: Section 11 of the Urban Mass Transportation Act of 1964.

14. Urban Development Action Grants: Title I of the Housing and Community Development Act of 1974.

APPENDIX B

MANDATING A MINIMUM BENEFIT STANDARD AND RAISING FEDERAL MATCHING RATES IN AFDC

The joint effects of mandating a minimum benefit standard and raising federal matching rates in AFDC are discussed in the main body of the text. This appendix separates the effects of the minimum benefit standard from those of the increased federal matching rate, and discusses each in more detail.

MANDATING A MINIMUM BENEFIT STANDARD

States and localities set maximum benefit levels in AFDC. Unlike benefits in other means-tested programs, they vary significantly among states. In the Food Stamp program, which provides food coupons to families whose incomes fall below a specified level, benefits are the same in all states (except for Alaska and Hawaii). In the Supplemental Security Income (SSI) program, which provides cash benefits to low-income aged or disabled individuals, the federal benefit is fixed nationwide, although states may supplement it.

In January 1989, maximum AFDC benefits for states for a family of three ranged from $118 a month to $663 in the continental United States (see Table B-1). These wide differences are based primarily on the relative desires and capabilities of states and localities to assist their needy populations. Also, they result in part from differences in the cost of living among geographic areas. While existing data on cost of living differences are not reliable, they suggest that rural areas have a lower cost of living than urban areas and that the South has a lower cost of living than other regions.

To the extent they do not reflect the relative cost of living (and are not largely offset by Food Stamp benefits that are higher when incomes are lower), such wide differences in AFDC benefits are not consistent with a welfare system that has horizontal equity. Horizontal equity--treating people in similar circumstances similarly--is often mentioned as a goal of welfare reform. Moreover, benefits in some areas may be inadequate to provide a subsistence income. On the other hand, requiring identical benefits in all geographic areas would cause welfare benefits to be a much higher proportion of earnings in low-income states and localities and could lead to strong disincentives to work.

Mandating a minimum AFDC benefit standard would also cause AFDC payments to rise along with inflation for those states affected by

TABLE B-1. MAXIMUM AFDC BENEFITS FOR A FAMILY OF THREE, BY STATE (In dollars)

State	Maximum Benefit in January 1989	Percentage Change in Real Terms, 1970-1989
Alabama	118	-42
Alaska	809	-21
Arizona	293	-32
Arkansas	204	-26
California	663	15
Colorado	356	-41
Connecticut	623	-29
Delaware	333	-33
District of Columbia	393	-35
Florida	287	-19
Georgia	270	-19
Hawaii	557	-21
Idaho	304	-54
Illinois	342	-53
Indiana	288	-23
Iowa	394	-37
Kansas	427	-38
Kentucky	218	-52
Louisiana	190	-31
Maine	438	4
Maryland	377	-25
Massachusetts	539	-35
Michigan	513	-25
Minnesota	532	-33
Mississippi	120	-31
Missouri	285	-12
Montana	359	-43
Nebraska	364	-32

(Continued)

the mandatory minimum benefit standard, because the poverty guidelines rise with inflation. During the past two decades, maximum benefits have kept up with inflation in only two states. In the median state, maximum benefits have fallen by 37 percent in real terms from 1970 to 1989. Because of large benefit increases in 1984 and 1985, however, maximum benefits in real terms have increased or held constant in 21 states during the 1984-1988 period.

TABLE B-1. (Continued)

State	Maximum Benefit in January 1989	Percentage Change in Real Terms, 1970-1989
Nevada	330	-12
New Hampshire	496	-39
New Jersey	424	-55
New Mexico	264	-43
New York	539	-38
North Carolina	266	-41
North Dakota	386	-42
Ohio	321	-36
Oklahoma	325	-31
Oregon	420	-27
Pennsylvania	402	-51
Rhode Island	517	-27
South Carolina	206	-22
South Dakota	366	-55
Tennessee	173	-50
Texas	184	-60
Utah	376	-31
Vermont	629	-24
Virginia	354	-49
Washington	492	-39
West Virginia	249	-30
Wisconsin	517	-10
Wyoming	360	-46
Median	360	-37

SOURCE: Committee on Ways and Means, *Background Material and Data on Programs Within the Jurisdiction of the Committee on Ways and Means* (March 1989), Table 10, pp. 541-542; and Table 12, pp. 546-547.

The Minimum Benefit Standard in S. 862

The costs of mandating an AFDC minimum benefit standard would depend on the minimum standard relative to the benefit levels that would exist under current law. In 1989, the required minimum benefit standards for a family of three are estimated to be $216 a month at

TABLE B-2. REQUIRED AFDC MINIMUM BENEFIT STANDARDS
(On a monthly basis, in dollars)

	1989			1994		
Family Size	AFDC Minimum Benefit Standard[a]	Food Stamp Benefit[b]	Total Benefit[c]	AFDC Minimum Benefit Standard[a]	Food Stamp Benefit[b]	Total Benefit[c]
			50 Percent of Poverty			
1	85	d	d	107	d	d
2	196	138	334	247	173	420
3	216	203	419	273	254	527
4	246	258	504	311	323	634
5	288	302	589	362	378	740
6	308	367	674	387	460	847
7	365	394	759	459	494	953
8	389	455	844	490	570	1,060
			65 Percent of Poverty			
1	111	d	d	139	d	d
2	339	95	434	427	119	546
3	396	149	545	499	186	685
4	462	193	655	582	241	824
5	540	226	766	679	283	962
6	597	280	876	750	351	1,101
7	690	297	987	868	372	1,240
8	751	347	1,097	944	434	1,378

SOURCE: Congressional Budget Office estimates.

a. These minimum benefit levels are for the continental United States. Levels for Alaska and Hawaii are higher.

b. Under the provisions of S. 862, Food Stamp benefits used in calculating the AFDC minimum benefit standard would be those for a family with an income equal to the AFDC minimum benefit standard and with the Food Stamp standard deduction. The Food Stamp allotment and standard deduction are projected to 1994 using CBO economic assumptions of December 1988 for the Consumer Price Index for All Urban Consumers.

(Continued)

50 percent of the poverty guidelines, $396 at 65 percent, $516 at 75 percent, and $695 at 90 percent (see Table B-2). As explained in the body of the paper, the bill requires that the AFDC standard plus the Food Stamp benefits that a family receives with income equal to the AFDC standard (less the Food Stamp standard deduction) must equal the specified percentages of the poverty guidelines. Thus, Food Stamp

TABLE B-2. (Continued)

	1989			1994		
Family Size	AFDC Minimum Benefit Standard[a]	Food Stamp Benefit[b]	Total Benefit[c]	AFDC Minimum Benefit Standard[a]	Food Stamp Benefit[b]	Total Benefit[c]
			75 Percent of Poverty			
1	128	d	d	159	d	d
2	435	66	501	547	83	630
3	516	113	629	649	141	791
4	606	150	756	763	187	950
5	709	175	884	890	220	1,110
6	789	222	1,011	992	278	1,271
7	907	232	1,139	1,141	290	1,430
8	992	274	1,266	1,247	343	1,590
			90 Percent of Poverty			
1	153	d	d	191	d	d
2	578	23	602	722	30	752
3	695	59	755	870	75	945
4	822	85	908	1,030	107	1,137
5	961	99	1,061	1,202	126	1,328
6	1,078	135	1,214	1,350	171	1,521
7	1,232	134	1,367	1,544	169	1,713
8	1,354	166	1,520	1,696	208	1,904

c. The poverty guidelines are published each year by the Department of Health and Human Services and are based on the official poverty thresholds determined by the Bureau of the Census. The total benefit is equal to the specified percentage of the annual poverty guidelines divided by 12 to arrive at a monthly figure. The guidelines are projected to 1994 using CBO economic assumptions of December 1988 for the Consumer Price Index for All Urban Consumers.

d. In S. 862, the minimum benefit for a family (AFDC unit) of one would equal the difference between the poverty guideline for a family of three and a family of four times the specified percentage of poverty.

benefits would decline as the AFDC standard increased. At 50 percent of poverty, Food Stamp benefits would contribute more to meeting the minimum standard than AFDC benefits for families of four and above. As the minimum standard increased as a percentage of poverty, however, AFDC benefits would become much more important. For example, at 90 percent of poverty, AFDC benefits would account for more than 90 percent of total benefits for most family sizes.

The required minimum benefit standards would increase over time so that by 1994 they are projected to be $273 a month at 50 percent of poverty and $870 at 90 percent for a family of three. The increase is determined largely by the projected rise in the poverty guidelines, which are adjusted annually by the rise in the Consumer Price Index. The guidelines are projected to increase an average of 4.5 percent a year through 1994, based on CBO's economic assumptions of December 1988. If the CPI rises by more or less, the required minimum benefit standard would also be higher or lower. A greater rise in the CPI would increase costs of the minimum benefit standard, but the amount of the increase would depend on how states would otherwise have altered their benefit levels in response to the higher rates of inflation.

Costs

The total 1989 cost of mandating a minimum benefit standard in AFDC is estimated to be $0.2 billion at 50 percent of the poverty guidelines, $2.6 billion at 65 percent, $5.5 billion at 75 percent, and $12.2 billion at 90 percent (see Table B-3). Costs would rise significantly over time because the poverty guidelines are projected to rise with inflation by more than any increases in AFDC benefit levels enacted by most states and localities. By 1994, costs would total $0.3 billion at 50 percent of poverty and $15.9 billion at 90 percent--about one-third more than in 1989.

The federal government would bear most of the costs of the minimum benefit standard in the AFDC program alone--71 percent when the minimum benefit standard was at 50 percent of poverty, declining to 61 percent when it was at 90 percent of poverty. These federal shares of costs would be higher than the federal share of current benefit payments, now averaging 55 percent, because the states affected most by the minimum benefit standard would have high federal matching rates. After accounting for reduced Food Stamp benefits, which are fully funded by the federal government, however, states would actually pay for around one-half or more of the total costs.

TABLE B-3. ESTIMATED COSTS OF MANDATING A MINIMUM BENEFIT STANDARD IN AFDC (In billions of dollars)

	1989	1994
	50 Percent of Poverty	
Federal	0.1	0.2
State	0.1	0.1
Total	0.2	0.3
	65 Percent of Poverty	
Federal	1.3	1.8
State	1.2	1.7
Total	2.6	3.4
	75 Percent of Poverty	
Federal	2.7	3.6
State	2.8	3.9
Total	5.5	7.5
	90 Percent of Poverty	
Federal	5.7	7.4
State	6.6	8.5
Total	12.2	15.9

SOURCE: Congressional Budget Office estimates.

NOTE: Costs include only those for mandating the AFDC minimum benefit standard, including costs in the AFDC, Food Stamp, and Medicaid programs. They do not include costs of increasing the federal matching rate to 90 percent for AFDC payments up to the mandatory minimum benefit standard.

Effects on Families

Most of the costs of mandating an AFDC minimum benefit standard--from around 80 percent to 90 percent--would stem from the higher benefits provided to families currently receiving AFDC (see Table B-4). For example, with a minimum benefit standard at 65 percent of poverty in 1989, $2.7 billion in costs, or 83 percent of the total, would be for families currently receiving AFDC. Some 1.9 million families who currently participate--one-half of all AFDC families--would receive additional AFDC benefits averaging $117 a month, or $1,404 a year. By the time the minimum standard reached 90 percent of poverty, 3.5 million families currently receiving benefits would be affected, or 94 percent of all AFDC families; they would receive additional AFDC benefits averaging $289 a month ($3,468 a year).

The remaining costs would be for newly participating families: those currently ineligible for AFDC who would become eligible because of the increased benefit levels, and those currently eligible but not participating who would participate because their potential benefits increased. CBO estimates, though with much uncertainty, that these families would number about 195,000 at 65 percent of poverty and receive AFDC benefits averaging $226 a month ($2,712 a year). Costs for these families would total $0.5 billion a year in 1989. At 90 percent of poverty, an estimated 705,000 families would be new participants, raising the number of AFDC families by almost one-fifth. Costs for new participants would then total $3.4 billion.

Among these new families, all of the newly eligible families and some of those previously eligible would have income.[1] Of the new families with income, 29 percent were estimated to have earnings and 71 percent to have only unearned income. Of those with unearned income, the two most prevalent types were Social Security (25 percent) and payments for child support (23 percent). Those with earnings had monthly income before AFDC that averaged $405 in 1989; those with only unearned income had monthly income that averaged $276.

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[1] Those AFDC units who were previously eligible but did not participate in AFDC and who had no income were probably living in families or in households with other people who had income (for example, SSI benefits).

TABLE B-4. ESTIMATED EFFECTS ON FAMILIES OF MANDATING AN AFDC MINIMUM BENEFIT STANDARD, 1989

	AFDC Costs (Billions of dollars)[a]	Percentage of Total AFDC Costs	Number of Families Affected (Thousands)	Percentage of Total Families Affected	Average Monthly Benefit Increase (Dollars)
		50 Percent of Poverty			
Current AFDC Families	0.3	90	495	97	45
New Families	b	10	15	3	157
Total	0.3	100	510	100	48
		65 Percent of Poverty			
Current AFDC Families	2.7	83	1,900	91	117
New Families	0.5	17	195	9	226
Total	3.2	100	2,095	100	127
		75 Percent of Poverty			
Current AFDC Families	5.7	82	2,390	87	199
New Families	1.3	18	355	13	300
Total	7.0	100	2,745	100	212
		90 Percent of Poverty			
Current AFDC Families	12.2	78	3,520	83	289
New Families	3.4	22	705	17	402
Total	15.6	100	4,225	100	308

SOURCE: Congressional Budget Office estimates.

a. Costs are those in AFDC benefit payments alone; costs for AFDC administration, Food Stamps, and Medicaid are not included. Figures include federal and state costs, which are based on matching rates under current law.

b. Represents less than $50 million.

CBO's estimates of newly participating families are uncertain for two reasons. First, estimating the number of families who would become newly eligible is difficult because the available data seldom provide the detail necessary to simulate AFDC eligibility precisely. For example, asset holdings of families are generally unavailable. Second, the number of eligible families who would choose to participate in AFDC can never be known with any certainty. The participation rates of newly eligible families in these estimates came from the Transfer Income Model (TRIM2) simulations discussed in Appendix C. The rates increased from 36 percent with the minimum benefit standard at 50 percent of poverty to 44 percent at 90 percent of poverty, compared with participation rates of 75 percent to 80 percent for families currently eligible for AFDC. In the TRIM2 model, participation rates are estimated to be lower for families with any earnings and to decline with the amount of non-AFDC income, which explains the lower participation rates for newly eligible families than for those currently eligible.

Effects by Region

The effects of mandating minimum AFDC benefit standards would vary sharply among the regions. The proposal would have its major effect in the South, where current AFDC benefits are relatively low. With the minimum benefit standard at 50 percent of the poverty guidelines, all the states affected, save one in the West, would be southern states (see Table B-5). At 65 percent of poverty, every state in the South would have to raise its benefits. Also, 74 percent of costs would be in the southern states, where AFDC benefits would have to be raised an average of $164 a month ($1,968 a year) for current AFDC families.

The Midwest region would also be affected significantly with the minimum benefit standard at 65 percent of poverty, accounting for 21 percent of the proposal's costs. Almost two-thirds of the families participating in AFDC in that region would have their benefits raised by an average of $76 a month ($912 a year). The Northeast and West together would account for only 5 percent of the proposal's costs.

As the minimum benefit standard was increased to 75 percent and then to 90 percent of poverty, rising numbers of states and of AFDC families would be affected. At 90 percent of poverty, all states would be affected. Also, almost all current AFDC families--95 percent--would be affected; virtually the only families not affected would be those with one AFDC recipient, since the proposal's special formula for such families is low relative to current benefit levels. While the share of costs borne by the South would decline as the minimum benefit standard increased, its share would remain disproportionately large. At 90 percent of poverty, the South would shoulder 50 percent of the minimum benefit standard's costs, even though only one-third of AFDC families resided there (see Figure B-1). In the southern region, benefits for current AFDC families would increase by an average of $453 a month ($5,436 a year), 55 percent higher than the average increase in all states. (Table B-6 on page 74 presents detail by state.)

Effects on Other Program Costs

When AFDC benefits are changed, costs in the Food Stamp and Medicaid programs are often automatically affected. In the Food Stamp program, AFDC benefits are counted as income of participating families; as their AFDC benefits rise, their Food Stamp benefits fall. Families are automatically eligible for Medicaid if they are on AFDC; thus, families who would participate in AFDC for the first time might become new Medicaid recipients. In addition, administrative costs in AFDC would rise.

As a result of these changes, AFDC benefit costs alone are estimated to be higher than the total costs of mandating an AFDC minimum benefit standard, which include savings in Food Stamps and costs in Medicaid (see Table B-7 on page 76). Total AFDC costs in 1989 at 65 percent of the poverty guidelines, for example, are estimated to be $3.3 billion, including $0.1 billion of administrative costs. Savings in Food Stamps are estimated to be $0.9 billion and costs in Medicaid to be $0.2 billion. Including all of these program effects leaves total costs of $2.6 billion, about 80 percent of AFDC benefit costs.

TABLE B-5. ESTIMATED EFFECTS OF MANDATING AN AFDC MINIMUM BENEFIT STANDARD, BY REGION, 1989

Region[a]	Number of States in Region	Number of States Affected	Total Costs (Billions of dollars)[b]	Percent of Total Costs
		50 Percent of Poverty		
Midwest	12	0	0	0
Northeast	9	0	0	0
South	17	9	0.2	100
West	13	1	[d]	[e]
Total	51	10	0.2	100
		65 Percent of Poverty		
Midwest	12	10	0.5	21
Northeast	9	3	[d]	1
South	17	17	1.9	74
West	13	8	0.1	4
Total	51	38	2.6	100
		75 Percent of Poverty		
Midwest	12	12	1.4	26
Northeast	9	6	0.3	6
South	17	17	3.4	62
West	13	10	0.3	6
Total	51	45	5.5	100
		90 Percent of Poverty		
Midwest	12	12	3.3	27
Northeast	9	9	1.6	13
South	17	17	6.2	50
West	13	13	1.1	9
Total	51	51	12.2	100

SOURCE: Congressional Budget Office estimates.

[a] *Midwest*: Illinois, Indiana, Iowa, Kansas, Michigan, Minnesota, Missouri, Nebraska, North Dakota, Ohio, South Dakota, and Wisconsin;
Northeast: Connecticut, Maine, Massachusetts, New Hampshire, New Jersey, New York, Pennsylvania, Rhode Island, and Vermont;
South: Alabama, Arkansas, Delaware, District of Columbia, Florida, Georgia, Kentucky, Louisiana, Maryland, Mississippi, North Carolina, Oklahoma, South Carolina, Tennessee, Texas, Virginia,, and West Virginia;
West: Alaska, Arizona, California, Colorado, Hawaii, Idaho, Montana, Nevada, New Mexico, Oregon, Utah, Washington, and Wyoming.

(Continued)

TABLE B-5. (Continued)

Region[a]	Number of Families Affected (Thousands)[c]	Percent of Families Affected	Affected Families as a Percent of AFDC Families[c]	Average Monthly Benefit Increase (Dollars)
	50 Percent of Poverty			
Midwest	0	0	0	0
Northeast	0	0	0	0
South	490	100	47	45
West	f	e	e	11
Total	495	100	13	45
	65 Percent of Poverty			
Midwest	625	33	62	76
Northeast	165	9	21	24
South	985	52	95	164
West	120	6	14	74
Total	1,900	100	52	117
	75 Percent of Poverty			
Midwest	855	36	85	155
Northeast	320	13	40	113
South	995	42	95	281
West	220	9	26	128
Total	2,390	100	65	199
	90 Percent of Poverty			
Midwest	990	28	98	312
Northeast	755	21	95	215
South	1,005	29	96	453
West	775	22	92	120
Total	3,520	100	95	289

b. Federal and state government costs are included. Costs include those in the AFDC, Medicaid, and Food Stamp programs.

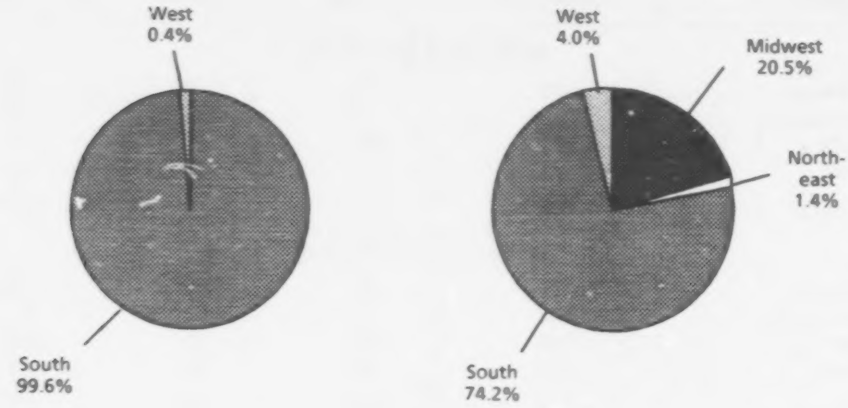
c. Effects are shown only for current AFDC families, not for new families.

d. Represents less than $50 million.

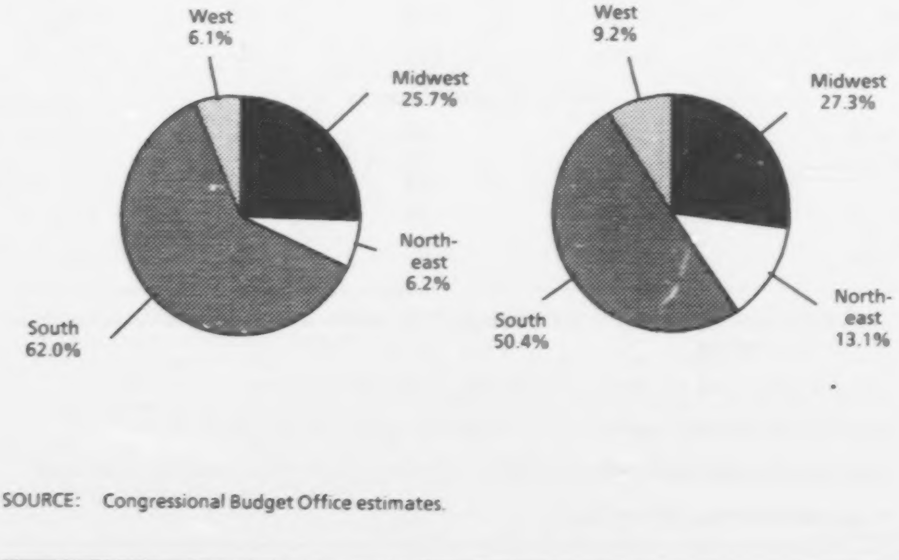
e. Represents less than 0.5 percent.

f. Represents fewer than 500 families.

Figure B-1.
Distribution of Total Costs of Mandating an AFDC Minimum Benefit Standard, by Region, 1989


Minimum Benefit at 50 Percent of Poverty

Minimum Benefit at 65 Percent of Poverty


Minimum Benefit at 75 Percent of Poverty

Minimum Benefit at 90 Percent of Poverty

SOURCE: Congressional Budget Office estimates.

Food Stamp savings in 1989 would rise from $0.1 billion with a minimum benefit standard at 50 percent of poverty to $4.5 billion at 90 percent, reducing total AFDC costs by 28 percent. About 83 percent of AFDC families receive Food Stamps, and each added dollar of AFDC reduces Food Stamp benefits by approximately 33 cents on average.[2] All Food Stamp savings accrue to the federal government, which pays for 100 percent of Food Stamp benefits.

Costs in Medicaid in 1989 would rise from an insignificant amount with a minimum benefit standard at 50 percent of poverty to $0.7 billion at 90 percent, raising total AFDC costs by about 4 percent each year. The federal government would pay for about three-quarters of these costs at 50 percent of poverty, and states and localities would pay one-quarter. As higher income states with lower federal matching rates were affected by the minimum benefit proposal at the higher percentages of poverty, the federal share of Medicaid costs would drop to around two-thirds or slightly less.

As noted earlier, Medicaid costs would be affected only to the extent that families who would be new participants in AFDC as a result of the minimum benefit standard would also become new recipients of Medicaid (or have more of their medical costs covered by Medicaid). Several programs exist through which the newly eligible and participating families might receive Medicaid even though they were not receiving AFDC.

First, if a state has a "medically needy" program, families with incomes above the AFDC income limits may receive Medicaid. CBO estimated the percentage of new families receiving medically needy benefits by state, as a function of whether the state had a medically needy program, the program's income limits relative to the AFDC minimum benefit standard income limits, and an assumed participation rate of 60 percent. Second, pregnant women and children with incomes above the AFDC income limits may also receive Medicaid. Programs for pregnant women and children have expanded con-

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[2] Food Stamp benefits are reduced by 30 cents for each added dollar of AFDC. In addition, for some families, the higher AFDC incomes lower the deduction for shelter costs in excess of 50 percent of countable income. Taking account of this deduction for shelter, Food Stamp benefits decline by about 33 cents on average for all AFDC families.

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siderably in recent years as a result of legislative initiatives. About 5 percent of new AFDC families were estimated to have pregnant women and children previously receiving Medicaid benefits. Medicaid costs were reduced by 10 percent for these families, however, because costs of pregnancies are so high. Third, families no longer eligible for AFDC because of increased earnings may receive Medicaid for a period

TABLE B-6. ESTIMATED COSTS FOR STATES OF MANDATING AN AFDC MINIMUM BENEFIT STANDARD, 1989 (In millions of dollars)

State	AFDC Minimum Benefit Standard as a Percentage of Poverty			
	50	65	75	90
Alabama	21	66	93	169
Alaska	0	0	0	2
Arizona	0	15	39	73
Arkansas	1	19	34	55
California	0	0	0	140
Colorado	0	8	38	97
Connecticut	0	0	a	39
Delaware	0	3	9	20
District of Columbia	0	2	14	34
Florida	0	82	159	292
Georgia	0	65	125	217
Hawaii	0	0	0	9
Idaho	0	2	6	13
Illinois	0	100	272	546
Indiana	0	34	68	134
Iowa	0	1	26	58
Kansas	0	1	19	46
Kentucky	1	37	62	110
Louisiana	10	76	123	208
Maine	0	a	5	19
Maryland	0	11	55	137
Massachusetts	0	0	0	61
Michigan	0	a	46	260
Minnesota	0	0	a	61
Mississippi	12	39	62	97
Missouri	0	47	93	187
Montana	a	1	6	17
Nebraska	0	2	15	31
Nevada	0	4	9	17

(Continued)

of 12 months (beginning in April 1990). The percentage of new families previously receiving extended Medicaid was estimated to rise from 3 percent with the minimum benefit standard at 50 percent of poverty to 9 percent at 90 percent of poverty. These figures were based on estimates of the percentage of new families with earnings who might have left AFDC because of increased earnings that were less than the income limits given by the minimum benefit standards.

TABLE B-6. (Continued)

State	AFDC Minimum Benefit Standard as a Percentage of Poverty			
	50	65	75	90
New Hampshire	0	0	1	5
New Jersey	0	4	70	197
New Mexico	0	11	21	40
New York	0	0	0	358
North Carolina	a	39	74	138
North Dakota	0	a	3	7
Ohio	0	82	222	446
Oklahoma	0	12	30	69
Oregon	0	0	11	33
Pennsylvania	0	17	126	313
Rhode Island	0	0	1	15
South Carolina	2	26	49	92
South Dakota	0	1	4	9
Tennessee	11	47	92	144
Texas	26	203	342	629
Utah	0	2	11	32
Vermont	0	0	0	2
Virginia	0	33	76	143
Washington	0	0	12	97
West Virginia	0	19	38	68
Wisconsin	0	0	1	77
Wyoming	0	1	4	9
Total	85	1,115	2,565	6,070

SOURCE: Congressional Budget Office estimates.

NOTE: Costs are those in AFDC benefit payments alone; costs for AFDC administration, Food Stamps, and Medicaid are not included. State costs are based on current-law matching rates.

a. Represents less than $500,000.

TABLE B-7. ESTIMATED COSTS OF MANDATING AN AFDC MINIMUM BENEFIT STANDARD, BY PROGRAM (In billions of dollars)

	1989			1994		
	Federal	State	Total	Federal	State	Total
			50 Percent of Poverty			
AFDC	0.2	0.1	0.3	0.3	0.1	0.4
Food Stamps	-0.1	0	-0.1	-0.1	0	-0.1
Medicaid[a]	b	b	b	b	b	b
Total	0.1	0.1	0.2	0.2	0.1	0.3
			65 Percent of Poverty			
AFDC	2.2	1.2	3.3	2.7	1.5	4.3
Food Stamps	-0.9	0	-0.9	-1.2	0	-1.2
Medicaid[a]	0.1	0.1	0.2	0.2	0.1	0.3
Total	1.3	1.2	2.6	1.8	1.7	3.4
			75 Percent of Poverty			
AFDC	4.5	2.7	7.2	6.0	3.7	9.7
Food Stamps	-2.0	0	-2.0	-2.7	0	-2.7
Medicaid[a]	0.2	0.1	0.3	0.4	0.2	0.6
Total	2.7	2.8	5.5	3.6	3.9	7.5
			90 Percent of Poverty			
AFDC	9.8	6.3	16.1	12.5	8.1	20.6
Food Stamps	-4.5	0	-4.5	-5.8	0	-5.8
Medicaid[a]	0.4	0.3	0.7	0.7	0.4	1.1
Total	5.7	6.6	12.2	7.4	8.5	15.9

SOURCE: Congressional Budget Office estimates.

NOTES: Savings are shown as negative numbers.

Costs include only those for mandating the AFDC minimum benefit standard. They do not include costs of increasing the federal matching rate to 90 percent for AFDC payments up to the mandatory minimum benefit standard.

a. Federal and state Medicaid costs are based on matching rates under current law.

b. Represents less than $50 million.

Medicaid costs for these new families are expected to be lower than per family costs for families already on Medicaid for several reasons. First, some of the families with earnings would have private health insurance (an estimated 55 percent), and these families' Medicaid costs were assumed to be only 30 percent of the costs of families without health insurance. The health insurance factor reduced estimated Medicaid costs by 15 percent, with a minimum benefit at 90 percent of poverty. Second, the new families were assumed to be "healthy," with costs averaging 80 percent of an average Medicaid family's costs. Third, some of the new families were always eligible for AFDC but did not participate because AFDC benefits were too low. If their health costs had been significant, they would presumably have participated in order to receive Medicaid. Thus, for these families, per-family costs were assumed to be only two-thirds of an average Medicaid family's costs. Finally, Medicaid costs per family vary considerably among states and are relatively low in many of the states affected most by the minimum benefit standard. In its estimates, CBO used Medicaid costs by state.

In addition to raising Medicaid costs, the substantial increase in the number of new families receiving AFDC would cause administrative costs in AFDC to rise. Establishing initial eligibility, recertifying eligibility periodically, determining work requirements, mailing checks, and otherwise servicing cases cost state and local governments considerable sums. The federal government and state governments generally share these costs equally.

AFDC administrative costs in 1989 are estimated to rise by $0.1 billion, $0.2 billion, and $0.5 billion from setting minimum benefit standards at 65 percent, 75 percent, and 90 percent of poverty, respectively. Costs in 1994 would be about 25 percent higher.

An annual cost of approximately $640 in 1989 and $790 in 1994 for each new family on AFDC was assumed for administration, based on the average administrative cost per family in AFDC. The marginal costs of administration could well be less than these average costs. Because these new families would usually have incomes and many would have jobs, however, their turnover would be greater than for current AFDC families, causing administrative costs to be higher. Other than for the new families, CBO assumed administrative costs would remain unchanged. Mandating the minimum benefit standard, which would require many states to change benefit levels every year, however, could raise administrative costs for current AFDC families.

The estimates do not include the costs of putting adults from the new AFDC families into the newly enacted Job Opportunities and Basic Skills Training Program (JOBS). Part of the Family Support Act of 1988, JOBS will both encourage and require states to give education, training, or other work-related services to AFDC recipients. States will be required to put 15 percent of adults who are nonexempt into a work-related program in 1994, and 20 percent into a program in 1995. About 60,000 adults from the 705,000 new AFDC families (with a minimum benefit standard at 90 percent of poverty) were estimated to have to participate in a work-related program each month in 1995. The cost in JOBS for these additional participants was estimated to be about $65 million a year; after allowing for welfare savings, costs would be substantially lower. Thus, given the relatively small size of the costs and the difficulty of allocating them by state, they were excluded from the estimates.

RAISING FEDERAL MATCHING RATES

To cover state costs from mandating an AFDC minimum benefit standard and to provide additional fiscal relief that would partially cover the costs to states of repealing selected federal grant programs, S. 862 would increase the federal matching rate to 85 percent and then to 90 percent on AFDC payments up to the minimum benefit standard. This change would significantly shift funding from state governments to the federal government.

Under current law, the federal government pays for 55 percent of AFDC benefits on average, while state (and in some cases local) governments pay for the remaining 45 percent. The federal matching rate varies significantly among states, however, depending on a state's per capita income. In 1990, federal matching rates will range from 50 percent in a number of states to slightly more then 80 percent in Mississippi. The 50 percent is a legal minimum, so that regardless of a state's per capita income it can receive no lower federal match. Matching rates are changed every year based on changes in state per capita incomes.

The South has considerably higher federal matching rates than other regions, averaging 63 percent in 1990. Moreover, the region has the highest percentage of states with federal matching rates above 70 percent and the lowest percentage with federal matching rates below 60 percent. The Midwest's federal matching rate averages 56 percent, the Northeast's 52 percent, and the West's 52 percent. The Northeast has no states with a federal matching rate above 70 percent, and three-quarters of its states have a federal matching rate below 60 percent.

Costs

The costs to the federal government, and savings to state governments, from raising the federal matching rate to 90 percent on AFDC payments up to the minimum benefit standard would increase as the standard increased as a percentage of the poverty guidelines. At 50 percent of poverty, states would save $2.6 billion in 1989 and at 90 percent of poverty, $10.4 billion (see Table B-8). By 1994, savings would rise to $3.2 billion and $12.8 billion at 50 percent and 90 percent of poverty, respectively. This increase of almost 25 percent reflects a projected increase in AFDC benefit payments.

The estimates presented here do not include costs of holding states harmless for any increased costs in the AFDC program, although Section 141 of S. 862 (not covered by the study request) includes such language. These costs are small relative to the total costs of the proposals in 1989: zero at 50 percent of poverty, less than $50 million at 65 percent, $0.1 billion at 75 percent, and $0.4 billion at 90 percent. Moreover, although some states would have higher costs in AFDC alone, savings from the increased federal matching rate in Medicaid would more than offset them.

As noted in the body of the paper, these estimates do not include the effects of any increased spending by states above that required--spending that might be induced by the bill's changes. The savings experienced by many states might lead some states to raise their AFDC spending. This would, in turn, further increase federal costs. Such induced spending changes, however, should not be large.

TABLE B-8. ESTIMATED EFFECTS OF MANDATING AN AFDC MINIMUM BENEFIT STANDARD AND INCREASING THE AFDC FEDERAL MATCHING RATE (In billions of dollars)

	1989			1994		
	Federal	State	Total	Federal	State	Total
			50 Percent of Poverty			
Mandate Minimum Benefit Standard[a]	0.1	0.1	0.2	0.2	0.1	0.3
Increase Federal Matching Rate[b]	2.6	-2.6	0	3.2	-3.2	0
Total	2.8	-2.5	0.2	3.4	-3.1	0.3
			65 Percent of Poverty			
Mandate Minimum Benefit Standard[a]	1.3	1.2	2.6	1.8	1.7	3.4
Increase Federal Matching Rate[b]	5.2	-5.2	0	6.5	-6.5	0
Total	6.6	-4.0	2.6	8.2	-4.8	3.4
			75 Percent of Poverty			
Mandate Minimum Benefit Standard[a]	2.7	2.8	5.5	3.6	3.9	7.5
Increase Federal Matching Rate[b]	7.1	-7.1	0	8.9	-8.9	0
Total	9.9	-4.3	5.5	12.5	-5.0	7.5
			90 Percent of Poverty			
Mandate Minimum Benefit Standard[a]	5.7	6.6	12.2	7.4	8.5	15.9
Increase Federal Matching Rate[b]	10.4	-10.4	0	12.8	-12.8	0
Total	16.1	-3.8	12.2	20.2	-4.3	15.9

SOURCE: Congressional Budget Office estimates.

NOTE: Savings are shown as negative numbers.

a. Costs include those in the AFDC, Medicaid, and Food Stamp programs.

b. Based on a 90 percent federal matching rate for AFDC payments up to the mandatory minimum benefit standard.

TABLE B-9. ESTIMATED SAVINGS TO STATES AS A RESULT OF INCREASING THE AFDC FEDERAL MATCHING RATE, BY REGION

	1989		1994	
	Amount (Billions of dollars)[a]	Percentage of Total	Amount (Billions of dollars)[a]	Percentage of Total
50 Percent of Poverty				
Midwest	-0.8	29	-0.9	29
Northeast	-0.7	26	-0.8	26
South	-0.6	24	-0.8	23
West	-0.6	22	-0.7	22
Total	-2.6	100	-3.2	100
65 Percent of Poverty				
Midwest	-1.5	28	-1.9	29
Northeast	-1.3	25	-1.6	26
South	-1.3	25	-1.6	24
West	-1.1	22	-1.4	22
Total	-5.2	100	-6.5	100
75 Percent of Poverty				
Midwest	-2.0	28	-2.5	29
Northeast	-1.8	25	-2.2	25
South	-1.8	25	-2.2	24
West	-1.6	22	-1.9	22
Total	-7.1	100	-8.9	100
90 Percent of Poverty				
Midwest	-2.9	28	-3.6	28
Northeast	-2.5	24	-3.1	25
South	-2.6	25	-3.2	25
West	-2.4	23	-2.8	22
Total	-10.4	100	-12.8	100

SOURCE: Congressional Budget Office estimates.

NOTE: Savings are shown as negative numbers.

a. Based on a 90 percent federal matching rate for AFDC payments up to the mandatory minimum benefit standard.

TABLE B-10. ESTIMATED STATE SAVINGS FROM INCREASING THE AFDC FEDERAL MATCHING RATE, BY STATE, 1989 (In millions of dollars)

	AFDC Minimum Benefit Standard as a Percentage of Poverty[a]			
State	50	65	75	90
Alabama	-25	-53	-71	-118
Alaska	-5	-12	-17	-26
Arizona	-20	-43	-61	-86
Arkansas	-11	-23	-31	-44
California	-418	-818	-1,121	-1,684
Colorado	-21	-43	-68	-114
Connecticut	-38	-73	-95	-135
Delaware	-7	-14	-19	-28
District of Columbia	-14	-26	-36	-53
Florida	-88	-179	-240	-343
Georgia	-56	-128	-173	-241
Hawaii	-6	-18	-27	-36
Idaho	-2	-5	-7	-12
Illinois	-218	-423	-560	-781
Indiana	-27	-56	-81	-129
Iowa	-26	-50	-68	-92
Kansas	-19	-36	-51	-71
Kentucky	-24	-47	-63	-94
Louisiana	-38	-80	-109	-163
Maine	-8	-17	-24	-36
Maryland	-57	-110	-145	-211
Massachusetts	-69	-135	-180	-273
Michigan	-169	-333	-454	-632
Minnesota	-34	-68	-96	-160
Mississippi	-13	-27	-39	-56
Missouri	-52	-105	-140	-210
Montana	-3	-7	-10	-18
Nebraska	-10	-18	-27	-39
Nevada	-4	-11	-15	-22

(Continued)

TABLE B-10. (Continued)

State	AFDC Minimum Benefit Standard as a Percentage of Poverty[a]			
	50	65	75	90
New Hampshire	-3	-7	-10	-14
New Jersey	-114	-216	-289	-392
New Mexico	-9	-19	-26	-38
New York	-305	-606	-824	-1,134
North Carolina	-35	-74	-98	-143
North Dakota	-3	-5	-7	-10
Ohio	-152	-310	-417	-588
Oklahoma	-17	-34	-46	-73
Oregon	-18	-34	-53	-70
Pennsylvania	-126	-249	-337	-483
Rhode Island	-12	-22	-31	-42
South Carolina	-18	-36	-52	-78
South Dakota	-2	-5	-7	-10
Tennessee	-34	-64	-94	-129
Texas	-123	-260	-363	-577
Utah	-3	-7	-12	-27
Vermont	-3	-6	-9	-14
Virginia	-51	-101	-136	-190
Washington	-49	-101	-148	-216
West Virginia	-10	-26	-37	-54
Wisconsin	-39	-79	-107	-168
Wyoming	-3	-6	-7	-11
Total	-2,610	-5,225	-7,140	-10,370

SOURCE: Congressional Budget Office estimates.

NOTE: Savings are shown as negative numbers.

a. Based on a 90 percent federal matching rate for AFDC payments up to the mandatory minimum benefit standard.

Effects by Region

State savings from raising the federal matching rate would be distributed fairly evenly among regions. For example, with the minimum benefit standard at 65 percent of poverty, the Midwest would save $1.5 billion in 1989 (28 percent of total state savings), the Northeast and South $1.3 billion each (25 percent), and the West $1.1 billion (22 percent), as shown in Table B-9 on page 81. (Table B-10 on page 84 presents detail by state.)

As a proportion of a region's state AFDC payments (after the minimum benefit standards), however, savings from the increased federal matching rate would be distributed less evenly. The South would fare best with the minimum benefit standard at 50 percent of poverty; its savings would equal 57 percent of its state AFDC payments, compared with 39 percent in the Midwest, 32 percent in the Northeast, and 21 percent in the West. With minimum benefit standards at such a low level, a number of the southern states would receive the higher federal matching rate on a large portion of their AFDC payments. As minimum benefit standards increased as a percentage of poverty, however, savings as a percentage of state AFDC payments would rise less in the South than in other regions. In fact, at 90 percent of poverty (when the benefit standards of all states would be at the mandatory minimum), regional savings as a percentage of AFDC payments would be relatively similar: 76 percent in the Midwest, 80 percent in the Northeast, and 71 percent in the South and West.

APPENDIX C

BASIS OF THE ESTIMATES

This appendix describes the basis of the estimates presented in this study. First, estimates of a minimum benefit standard and higher federal matching rates in AFDC are discussed. Then, estimates concerning raising the federal matching rates in Medicaid and terminating a number of grants to states are described in turn.

AFDC CHANGES

The major data base that CBO used in its estimates of the costs of a minimum benefit level and an increased federal matching rate in AFDC was the Transfer Income Model (TRIM2), maintained by the Urban Institute. However, for a critical part of the 1989 estimates--costs for families currently receiving AFDC--CBO used an internally developed data base. Each of the data bases is described in turn, followed by a brief discussion of a potential and important downward bias in the estimates.

TRIM2 Estimates

TRIM2 is a microsimulation model based on the Current Population Survey (CPS) of the Bureau of the Census, which is a survey of economic and demographic characteristics of U.S. households. TRIM2 simulates the number of families (units) eligible for, and participating in, AFDC under current law and under alternative legislative changes. The estimates shown in this paper were based on TRIM2 simulations for calendar year 1986, using the March 1987 CPS.

Estimates for 1989 and 1994 were developed by projecting AFDC benefit levels from 1986 to the later years and then deflating them to 1986 using the Consumer Price Index (CPI). Because the TRIM2 estimates are based on 1986 incomes, AFDC benefits and other variables for 1989 and 1994 must be converted to 1986 dollars. AFDC benefit levels were projected using the average annual percentage increase in each state's benefit levels over the 1982-1987 period. Benefits were then deflated by projections of the CPI based on CBO's December 1988 economic assumptions.

The mandatory minimum benefit standard was also estimated for 1989 and 1994 and deflated to 1986. The minimum benefit standard for 1989 was based on the published 1989 poverty guidelines. For 1994, the minimum benefit standard was estimated from projections of the poverty guidelines and Food Stamp benefits, which were both based on projections of the CPI.

These estimates thus correct for inflation between 1986 and the future years. They do not correct, however, for changes in the population, its characteristics including the number of families receiving AFDC, unemployment rates, or real incomes. Any increase in the number of AFDC families would raise costs above those shown in this study. Between 1986 and 1989, the number of AFDC families was virtually unchanged, but by 1994 CBO projects the number of families to be about 200,000 higher (exclusive of any changes from the Family Support Act of 1988). Any decrease (or increase) in the unemployment rate would lower (raise) costs. The unemployment rate for civilian workers has dropped sharply since 1986: from 7.0 percent to an average 5.2 percent for the first three quarters of 1989. Moreover, CBO's economic assumptions of December 1988 and July 1989 projected an unemployment rate of 5.6 percent for 1994.[1]

The TRIM2 simulations were based on an AFDC program that included changes resulting from the Family Support Act of 1988. The act changed AFDC in several ways that would affect the costs of a minimum benefit. It mandated the AFDC-Unemployed Parent (UP) program in all states. For purposes of the simulation, TRIM2 assumed that all states required to establish an AFDC-UP program would set up a program providing a UP family with benefits for the minimal six months a year. The act also liberalized the deductions from earnings for purposes of determining a family's benefits.

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1. Other problems with such microsimulation estimates are discussed in Commitee on Ways and Means, U.S. House of Representatives, *Children in Poverty* (May 1985), Part III, Chapter VIII.

TRIM2 was also used for the estimates of fiscal relief resulting from the increased federal matching rate in AFDC. The estimates for both 1989 and 1994 used federal matching rates under current law for 1990, the latest available.

Estimates Using CBO Data Bases

To estimate the number of current AFDC families affected by the minimum benefit standard in 1989 and the associated government costs, CBO constructed a data base of maximum AFDC benefit levels by state and by family size. Estimates of the proposal's effects could then be calculated by comparing AFDC benefit levels under current law with the required minimum benefit levels. The advantage of these estimates over TRIM2 is that they could be based on each state's actual benefits in January 1989 rather than on projected 1989 benefit levels.

Based on data from various sources, CBO also estimated the costs in AFDC administration, Food Stamps, and Medicaid that would result from the mandatory minimum benefit. These estimates are discussed in Appendix B.

A Potential Addition to Costs

The estimated costs of the minimum benefit standard presented in the paper did not account for reduced working time by affected AFDC families. Some AFDC families would probably reduce their working time--that is, the number of hours they would work for pay--as a result of a mandated minimum benefit standard. Reductions in working time would increase costs, perhaps significantly.

The minimum benefit might induce earners currently on AFDC, as well as those made newly eligible for the program, to reduce their hours of work for two reasons. First, their incomes would be higher as a result of the increased AFDC benefits. When a person's income increases, he or she might choose to increase leisure hours, resulting in reduced work hours (the "income effect"). Second, the high benefit reduction rates in AFDC would sharply reduce the income an earner could keep from an additional hour of work (the "substitution effect").

The substitution effect would affect only newly eligible families because current families already face the high benefit reduction rates.

The TRIM2 model does not have the capability to estimate reduced work effort. An earlier CBO study, however, showed that costs associated with reduced work effort as a result of AFDC expansions could be significant.[2] On the other hand, costs would be limited by the relatively small number of affected families who would have earnings. Only 7.8 percent of current AFDC families--about 300,000--had earnings in 1987 and, as discussed in Appendix B, a relatively small proportion of families coming into AFDC as a result of the minimum benefit were estimated to have earnings. For example, with a minimum benefit at 65 percent of the poverty guidelines, only 40,000 new families--29 percent of all new families with non-AFDC income--were estimated to have any earnings. In addition, requirements for AFDC families to participate in work-related programs when not employed should ameliorate the incentives to work less.

MEDICAID CHANGE

Two pieces of information are critical to estimating the federal government's costs and state governments' savings from raising the federal matching rate in Medicaid: each state's federal matching rate under current law and benefit payments.

In these estimates, 1990 matching rates were used for both the 1989 and the 1994 estimates. These 1990 matching rates are shown in Table 1 of the Introduction.

The 1989 costs were based on the actual state-by-state distribution of Medicaid benefit payments for fiscal year 1988, inflated to 1989 by the average projected rise in Medicaid payments for all states in CBO's January baseline. For 1994, federal costs (state savings) from the proposed matching rate increase were then inflated from 1989 costs by the approximate two-thirds rise in projected Medicaid payments over five years in CBO's January baseline.

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[2] Committee on Ways and Means, *Children In Poverty*, Part III, Chapter VII.

REPEAL OF SPECIFIED FEDERAL PROGRAMS

Several of the tables presented earlier use CBO's estimates of fiscal year 1989 spending and projections of 1994 spending for these programs to indicate how their repeal would ultimately affect federal and state budgets. As discussed earlier, however, the full impact of eliminating these programs would not actually be realized for several years, since spending in one year is largely determined by funding decisions made in previous years.

To illustrate the impact of the repeal of these programs on individual state budgets, CBO estimated the state-by-state distribution of fiscal year 1989 outlays for the affected programs (see Table 12 on page 42). In general, CBO based these estimates on each state's grant obligations in previous years, using data for the past year or for a number of years, depending on the pattern of spending for each program. CBO first calculated the average percentage of program obligations in each state in past years, and used that to estimate the percentage of outlays in 1989 that would be expected in each state. It then applied these percentages to CBO's estimates of total outlays for each program, with adjustments for program administration and other outlays that do not pass through the states.

For some programs, particularly construction programs, outlays in one year are the result of obligations over the course of several past years. For these programs, CBO calculated the average percentage of obligations in each state over the past three to five years, depending on the specific nature of the program and the availability of data. For other programs, such as education grants, outlays in one year are closely associated with obligations in that year or the preceding year, thus only one year's obligation data was used to estimate the distribution of outlays.

While these estimates, in general, should give a reasonable indication of the long-term impact of the repeal of these programs on each state, they should be considered with some caution. Estimates of the distribution of grant funds in the past few years may not always present an accurate indication of that distribution in the future. Recent distributions of grant funds probably best predict future distributions when funds are allocated according to a formula, as is the case for most of the large programs, including UMTA formula grants, SSBGs, and CDBGs. Some of these programs distribute money to the states through a more discretionary process, however, so recent state breakdowns may be a less accurate indicator of future breakdowns. These programs include the Appalachian Regional Commission, the EDA, and Farmers Home Administration Rural Water and Waste Disposal Grants. Even for these programs, however, the 1989 distribution of funds should be a reasonable indicator of future impacts of program repeals, since CBO found that state shares of the obligations for these programs in recent years have been very stable.

Two of these programs present unique difficulties in estimating future spending by state. Recent amendments to the EPA construction grants program could result in significant changes in spending patterns. Whereas, until fiscal year 1990, program funds were disbursed as grants, beginning in that year, some (and eventually all) of the appropriation will be used to capitalize state revolving funds. CBO cannot predict how this change in the program structure will affect the distribution of spending among the states. In the case of another program, UMTA interstate transfer grants, funds available for appropriation after fiscal year 1989 are limited to about $836 million. This limit means that this program should receive no additional appropriations after fiscal year 1993 if appropriations through that year remain at the 1989 level.

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